

IMPORTANT

If you are in any doubt about this Prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.



WEICHAİ

潍柴动力股份有限公司 WEICHAİ POWER CO., LTD.

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

PUBLIC OFFER AND INTERNATIONAL PLACING

Number of H Shares to be offered	: 110,000,000 H Shares (subject to the Over-allotment Option)
Number of Public Offer Shares	: 11,000,000 H Shares (subject to adjustment)
Number of Placing Shares	: 99,000,000 H Shares (subject to adjustment and the Over-allotment Option)
Offer Price	: not more than HK\$10.80 and not less than HK\$8.30 per H Share (payable in full on application and subject to refund)
Nominal Value	: RMB1.00 per H Share
Stock Code	: 2338

Sponsor and Bookrunner



Joint Global Coordinators and Joint Lead Managers



The Stock Exchange and HKSCC take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

A copy of this Prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies" in appendix VI, has been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this Prospectus or the documents referred to above.

The Company is incorporated, and its businesses are located, in the PRC. Potential investors in the Company should be aware of the differences in the legal, economic, and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investment in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the shares of the Company. Such differences and risk factors are set out in the sections headed "Risk Factors" and "appendix IV – Summary of Principal Legal and Regulatory Provisions and Articles of Association". Investors should also be aware that the companies and securities regulatory framework in the PRC to which the Company is subject has only recently been introduced.

The Offer Price is expected to be determined by agreement between the Company (on behalf of itself and, if the Placing Underwriting Agreement is entered into, the Selling Shareholders) and CITIC Capital (on behalf of the Public Offer Underwriters and, if the Placing Underwriting Agreement is entered into, the Placing Underwriters) at or before 5:00 p.m. on 3 March, 2004 or such later date as may be agreed by the Company and CITIC Capital but in any event no later than 5:00 p.m. on 4 March, 2004.

The Offer Price will be not more than HK\$10.80 and not less than HK\$8.30 per Offer Share. CITIC Capital (on behalf of the Public Offer Underwriters), with the consent of the Company, may reduce the indicative Offer Price range stated in this Prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, a notice of the reduction of the indicative Offer Price range will be published in the *South China Morning Post* (in English) and the *Hong Kong Economic Times* (in Chinese) not later than the morning of the last day for lodging applications under the Public Offer. If applications for Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offer, then even if the Offer Price is so reduced, such applications cannot subsequently be withdrawn.

If, for any reason, the Offer Price is not agreed between the Company (on behalf of itself and, if the Placing Underwriting Agreement is entered into, the Selling Shareholders) and CITIC Capital (on behalf of the Public Offer Underwriters and, if the Placing Underwriting Agreement is entered into, the Placing Underwriters) at or before 5:00 p.m. on 4 March, 2004, the Offering will not proceed and will lapse.

Pursuant to the Public Offer Underwriting Agreement, CITIC Capital, on behalf of the Public Offer Underwriters, has the right to terminate the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement upon the occurrence of certain events at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of the aforesaid events are set out in the section headed "Underwriting — Grounds for termination" in this Prospectus.

26 February, 2004

EXPECTED TIMETABLE⁽¹⁾

2004

Application lists open ⁽²⁾	11:45 a.m. on 2 March
Latest time to lodge white and yellow Application Forms and give electronic application instructions to HKSCC	12:00 noon on 2 March
Application lists close	12:00 noon on 2 March
Price Determination Time ⁽³⁾	5:00 p.m. on 3 March
Announcement of the Offer Price and the indication of the levels of interest in the Placing, the results of applications and the basis of allocation of the Public Offer Shares to be published in the <i>South China Morning Post</i> (in English) and the <i>Hong Kong Economic Times</i> (in Chinese) on or before	9 March
Despatch of share certificates and refund cheques ^{(4) (5) (6)}	10 March
Dealings in the H Shares expected to commence on	11 March

- (1) All times refer to Hong Kong local time. Details of the structure of the Offering, including its conditions, are set out in the section headed “Structure of the Offering”.
- (2) If there is a “black” rainstorm warning or tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. and 12:00 noon on 2 March, 2004, the application lists will not open on that day. Further information is set out under “Effect of bad weather conditions on the opening of the application lists” in the section headed “How to apply for Public Offer Shares”.
- (3) If, for any reason, the Offer Price is not determined at or before 5:00 p.m. on 3 March, 2004, the expected timetable may be postponed, but in any event, the expected time of determination of the Offer Price will not be later than 5:00 p.m. on 4 March, 2004. If, for any reason, the Offer Price is not agreed between CITIC Capital, on behalf of the Public Offer Underwriters and, if the Placing Underwriting Agreement is entered into, the Placing Underwriters, and the Company (on behalf of itself and, if the Placing Underwriting Agreement is entered into, the Selling Shareholders) by 5:00 p.m. on 4 March, 2004, the Offering will not proceed.
- (4) Refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the price payable on application.
- (5) Applicants for 500,000 H Shares or more and who have indicated in their application forms that they wish to collect refund cheques (where applicable) and share certificates (where applicable) personally may collect their refund cheques (where applicable) and share certificates (where applicable) personally from the Company’s H Share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on 10 March, 2004 or any other day notified by the Company in the newspaper as the date of despatch of share certificates/refund cheques. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must be represented by their authorised representatives bearing letters of authorisation stamped with the chops of their respective corporations. Both individuals and authorised representatives must produce at the time of collection evidence of identity acceptable to Computershare Hong Kong Investor Services Limited.
- (6) Uncollected share certificates and refund cheques will be despatched by ordinary post at the applicants’ own risk to the addresses specified in the relevant application forms. For applicants who have applied for less than 500,000 H Shares or who have applied for 500,000 H Shares or more but have not indicated in the Application Forms that they wish to collect share certificates and/or refund cheques personally, their share certificates (if applying by using a **white** Application Form) and/or refund cheques will be sent to the addresses on the applicants’ Application Forms on 10 March, 2004, by ordinary post and at the applicants’ own risk. Further information is set out in the sections headed “How to apply for Public Offer Shares” and “Terms and Conditions of the Public Offer”. For further details of the Offering, see the section headed “Information about this Prospectus and the Offering” in this Prospectus.

H Share certificates will only become valid certificates of title provided that the Offering has become unconditional in all respects and neither of the Public Offer Underwriting Agreement and the Placing Underwriting Agreement (if entered into) has been terminated in accordance with their respective terms, which is expected to be at no later than 8:00 a.m. (Hong Kong time) on the Listing Date. Investors who trade H Shares on the basis of publicly available allocation details prior to the receipt of share certificates, or prior to the share certificates becoming valid certificates of title, do so entirely at their own risk.

CONTENTS

You should rely only on the information contained in this Prospectus and the Application Forms to make your investment decision. The Company has not authorised anyone to provide you with information that is different from what is contained in this Prospectus. Any information or representation not made in this Prospectus must not be relied on by you as having been authorised by the Company, the Underwriters, any of their respective directors, or any other person or party involved in the Offering.

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SUMMARY

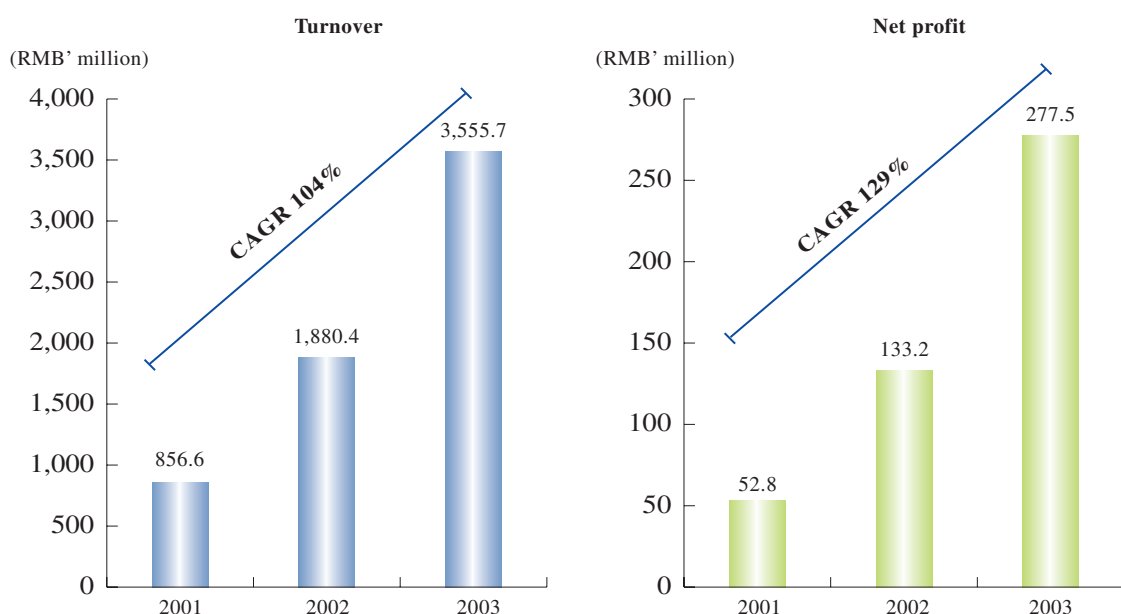
This summary aims to give you an overview of the information contained in this Prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole Prospectus before you decide to invest in the H Shares. There are risks associated with any investment. Some of the particular risks in investing in the H Shares are set out in the section headed “Risk factors”. You should read that section carefully before you decide to invest in the H Shares.

OVERVIEW

The history of the Company can be traced back to 1953 when Weichai Factory was established as a State-owned enterprise. Weichai Factory was one of the first diesel engine manufacturers in the PRC. After over half a century of development, the Company has become a major diesel engine manufacturer in the PRC specialising in the manufacture of high-speed heavy-duty diesel engines. The products of the Company are WD615 and WD618 Engines, the production of which commenced in 1989 and 2000, respectively.

WD615 Engines are water-cooled, linear, 6-cylinder, turbo-charging, high-speed diesel engines, which can generate 110-266 kW and have met the Euro II Standards. The Company manufactures four series of WD615 Engines, namely vehicle engines (for heavy-duty vehicles and coaches), construction machine engines, vessel engines and power generator engines. WD618 Engines are a new series of diesel engines developed based on the WD615 series. In addition to having all the major features of the WD615 Engines, WD618 Engines, with larger displacement, can generate 265-323 kW. WD618 Engines have also met the Euro II Standards.

The following are the turnover and net profit of the Company during the three years ended 31 December, 2003:



Notes:

- (1) The net profit figures have been adjusted to reflect notional taxation. For further information, please refer to the accountants' report set out in appendix I to this Prospectus.
- (2) CAGR is calculated based on the relevant figures as at 2001 and 2003 financial year ends.

SUMMARY

The Company is headquartered in Weifang city, Shandong province, the PRC. Substantially all of the sales of the Company are made within the PRC and the revenue from the sale of WD615 Euro I Engines constitute most of such sales.

In 2003, in terms of unit sales, approximately 50.1% of the Company's products were used in heavy-duty vehicles and approximately 47.1% were used in construction machines. These two industries experienced significant growth in recent years, with CAGRs of approximately 60.8% and 27.5%, respectively from 1998 to 2002 in terms of sales. The Directors believe that this was due to the high GDP growth rates, heavy infrastructure investment, and the development of highway system and logistics industry in the PRC in the past few years.

In the heavy-duty vehicle market, approximately 71.3%¹ of the new heavy-duty vehicles with a load capacity of 15 tonnes (or above) sold in the PRC in 2003 were installed with the Company's products. The major customers of the Company in this market include the China Heavy Duty Truck Group, Shaanxi Zhongqi, Chongqing Hongyan and Beiqi Futian.

In addition to being used in heavy-duty vehicles, the Company's products are also widely used in construction machines, which include wheel-loaders, bulldozers and road-rollers. In 2003, the Company's products had a market share of approximately 73%² of the new wheel-loaders with a load capacity of 5 tonnes (or above) sold in the PRC. The major customers of the Company in this market include Guangxi Liugong, Fujian Longgong and Shandong Lingong.

The Company has a nation-wide service network. As at the Latest Practicable Date, the Company had 37 service centres and 480 licensed service centres in the PRC.

Notes:

(1) Source: 《中國汽車報》 (China Vehicle Newspaper) dated 13 January, 2004

(2) Source: 《中國工業報》 (China Industry Newspaper) dated 9 February, 2004

Principal strengths

The Directors consider that the Company has the following principal strengths:

1. *Being one of the largest heavy-duty diesel engine manufacturers in the PRC*

The Company has accumulated more than 50 years of experience in the diesel engine industry, in particular the development, manufacture and sale of high-speed heavy-duty diesel engines. After over half a century of development, the Company has grown into one of the largest heavy-duty diesel engine manufacturers in the PRC with a good reputation amongst its customers.

SUMMARY

2. *Technological advantages*

The PRC Government stipulates that all new vehicles must comply with the Euro II Standards as from September 2004. The Company's WD615 and WD618 Engines met the Euro I Standards in 2001 and the Euro II Standards in 2002 and 2003, respectively, i.e. two years and one year ahead of the PRC Government's requirement, respectively. In addition, the Company's WD615 and WD618 Engines have other competitive advantages over certain similar diesel engines manufactured in the PRC, such as low fuel consumption, reliability and high torque back-up, and having been in production for over 13 years, they are mature products with proven quality, which make them amongst the most popular high-speed heavy-duty diesel engines in the PRC.

3. *Strong research and development capability*

The Company has proven track record in developing new models of diesel engines and improving its existing models. The Company has successfully upgraded its WD615 and WD618 Engines to the Euro II Standards. The Company has also established long-term relationships with certain renowned international diesel engine manufacturers and institutes, such as Steyr and AVL. The Company is currently developing its Euro III compliant diesel engines with support from AVL.

4. *Being engaged in a fast growing industry in the PRC*

The products of the Company are mainly used in heavy-duty vehicles with a load capacity of 15 tonnes (or above) and construction machines with a load capacity of 5 tonnes (or above). These two industries in the PRC have shown CAGRs of approximately 60.8% and 27.5%, respectively from 1998 to 2002 in terms of sales. With respect to the diesel engine industry, unit sales of medium-bore multi-cylinder diesel engines (which include high-speed heavy-duty diesel engines) in the PRC have shown a CAGR of approximately 24.0% over the same period.

5. *Strong sales team and service network in the PRC*

As at the Latest Practicable Date, the Company had a sales team of 289 members, and a total of 37 service centres and 480 licensed service centres, which together form an effective service network for the Company's products in the PRC.

6. *An established and renowned customer base*

The Company's major customers in the heavy-duty vehicle industry include the China Heavy Duty Truck Group*, Shaanxi Zhongqi, Chongqing Hongyan and Beiqi Futian, and its major customers in the construction machine industry include Guangxi Liugong*, Fujian Longgong* and Shandong Lingong. As most of them are leading manufacturers in their respective industries, this has further strengthened the Company's reputation and enabled the Company to leverage on their reputation to further penetrate those markets. The Company has had long-term business relationships with its major customers for periods ranging from approximately three to 14 years.

* A connected person of the Company (within the meaning of the Listing Rules)

SUMMARY

7. *A stable and experienced management team*

The senior executives of the Company have extensive experience in the diesel engine industry, and most of them have been working for the Company for more than 15 years. In addition, certain executive and management shareholders together hold approximately 6.88% of the Shares of the Company before the Listing, which aligned their interest with the performance of the Company.

8. *Strong financial position and outstanding growth*

For the three years ended 31 December, 2003, the CAGRs of the turnover and net profit of the Company were approximately 104% and 129%*, respectively. The Company is a fast-growing heavy-duty diesel engine manufacturer in the PRC. The net asset value of the Company as at 31 December, 2003 was RMB474,500,000.

* This represents the CAGR of the net profit of the Company after making certain notional income tax adjustments for the three years ended 31 December, 2003. For further information, please refer to the accountants' report in appendix I to this Prospectus.

FUTURE PLANS AND PROSPECTS

Although the PRC Government currently still implements the Euro I Standards, it will implement Euro II Standards in September 2004. The Company has, ahead of that timetable, upgraded its WD615 and WD618 Engines to Euro II Standards in 2002 and 2003. The Company plans to increase the production and sales volume of its WD615 and WD618 Euro II Engines in tandem with market demand and further upgrade them to Euro III Standards in the near future.

Apart from the trend to lower emissions, the load capacity and power of heavy-duty vehicles in the PRC have also increased. The PRC Government has made the development of high-tonnage heavy-duty vehicles with an output of over 220 kW a major strategic direction for the automobile industry in the tenth Five-year State Plans (2001–2005). The Company intends to develop more powerful engines in conjunction with its development of Euro III Engines. The Company also plans to increase the output of its WD618 Engines, so as to further strengthen its position as a leading high-speed heavy-duty diesel engine manufacturer in the PRC.

The Company will continue to strengthen its dominant position in the market for heavy-duty vehicles and step-up its marketing efforts on its WD615 and WD618 Engines for coaches, as the Directors believe, with the continuing development and expansion of the highway system and the tourism industry in the PRC, the demand for coaches will increase. As for the market for construction machines, the Company plans to increase its market share in the wheel-loaders market, and step up its sales efforts in other types of construction machines, such as bulldozers and road-rollers. The Company intends to leverage on its strong financial position and technical expertise as well as the experience of its strong management team to grow the Company's business by a combination of further development of and investment in its existing core business, establishment of strategic alliance and synergistic acquisitions.

SUMMARY

USE OF PROCEEDS

The net proceeds of the Offering, based on the Offer Price of HK\$9.55 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$8.30 and HK\$10.80 per H Share) and after deduction of the underwriting fees and estimated expenses payable by the Company in relation to the Offering (assuming that the Over-allotment Option is not exercised) which will be received by the Company, are estimated to be approximately HK\$888 million (or HK\$1,028 million, if the Over-allotment Option is exercised in full). The Company currently intends to use the net proceeds to be received by it under the Offering as follows:

1. approximately RMB500 million, of which approximately RMB80 million will be used for the modification of the Weichai Production Line, including the processing, assembly and testing lines, and approximately RMB420 million will be used for the establishment of an additional production line (including machinery, equipment and premises) for the production of WD615 and WD618 Engines. This project, having been approved by the shareholders of the Company at the 2002 annual general meeting and received in-principle approval from NDRC (document entitled 《國家發改工業【2003】1878號文件》), is expected to be completed by the end of 2005, and will increase the Company's annual production capacity by 30,000 units of diesel engines;
2. approximately RMB80 million for the development, with support from AVL, of WD615 and WD618 Euro III Engines. The project is proposed to be completed around the end of 2006;
3. approximately RMB80 million for further development of the Company's existing sales and service network, consolidation of its corporate image and standards, and the implementation of computer networking between its service centres, licensed service centres and sales department;
4. approximately RMB54 million for the establishment of enterprise resources planning and production data management systems; and
5. the balance will be used as general working capital including any strategic development, acquisitions or investments that the Company may decide to pursue and to fund the business activities of the Company in the furtherance of its business objectives.

In the event that the Over-allotment Option is exercised in full, the additional net proceeds of approximately HK\$140 million receivable by the Company will also be applied by the Company as general working capital. To the extent that the net proceeds of the Offering receivable by the Company are not immediately required for the above purposes, the Directors currently intend that such proceeds, to the extent permitted by the relevant PRC laws and regulations, will be placed on short-term deposits with licensed banks or financial institutions. Please refer to the sections headed "Future plans and prospects" and "Use of proceeds" in this Prospectus for further details.

SUMMARY

TRADING RECORD

The table below sets out a summary of the results of the Company for the Track Record Period, prepared in accordance with Hong Kong GAAP, as extracted from the accountants' report set out in appendix I to this Prospectus.

	Year ended 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Turnover	856,581	1,880,368	3,555,670
Cost of sales	(644,445)	(1,454,318)	(2,695,351)
Gross profit	212,136	426,050	860,319
Other operating income	3,316	12,773	31,250
Distribution expenses	(26,214)	(66,383)	(197,660)
Administrative expenses	(91,415)	(132,078)	(160,770)
Research and development expenses	(2,937)	(3,833)	(39,412)
Other operating expenses	(2,088)	(2,152)	(7,809)
Profit from operations	92,798	234,377	485,918
Finance costs	(10,098)	(9,700)	(30,425)
Profit before taxation	82,700	224,677	455,493
Taxation	(4,188)	(57,132)	(178,025)
Profit for the year	<u>78,512</u>	<u>167,545</u>	<u>277,468</u>
Dividend	<u>—</u>	<u>—</u>	<u>20,439</u>
Basic earnings per share (in RMB)	<u>0.98</u>	<u>2.01</u>	<u>1.29</u>
Weighted average number of shares	<u>80,000,000</u>	<u>83,328,767</u>	<u>215,000,000</u>

Prior to the formation of the Company on 23 December, 2002, the assessable profit of the business of the Company* was reduced by tax losses of other divisions of Weichai Factory. Had tax been payable based on the PRC income tax rate of 33% on the assessable profit of the business of the Company*, the results of the Company for the Track Record Period would have been impacted as follows:

Profit for the year	78,512	167,545	277,648
Less: Notional taxation	(25,717)	(34,353)	—
Pro forma adjusted profit for the year	<u>52,795</u>	<u>133,192</u>	<u>277,648</u>

* The manufacture and sale of WD615 and WD618 Engines

SUMMARY

In the year ended 31 December, 2003, the Company entered into certain agreements with various companies within the China Heavy Duty Truck Group in relation to the provision of a range of services and other transactions which are required or requested by the relevant parties. Had such agreements been effective at the beginning of and throughout the Track Record Period, the results of the Company would have been a loss of approximately RMB22,037,000 for the year ended 31 December, 2001 and a profit of approximately RMB74,010,000 and RMB293,241,000 for the years ended 31 December, 2002 and 31 December, 2003, respectively.

For details of other information of the trading record of the Company, please refer to the section headed “Financial information”, the accountants’ report set out in appendix I and the additional financial information set out in appendix II to this Prospectus.

DIRECTORS’ AND SUPERVISORS’ COMPENSATIONS

The Directors and Supervisors receive compensations in the form of salaries, retirement plan contributions and other allowances and benefits. The aggregate amount of salaries, bonus and other allowances, retirement benefits scheme contributions and benefits in kind paid by the Company to the Directors during each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003 were approximately RMB106,000, RMB127,000 and RMB1,799,000, respectively. Please refer to the paragraph headed “Directors’ and Supervisors’ compensations” in the section “Directors, Supervisors and senior management” of this Prospectus. Under the arrangements currently in force, the aggregate remuneration (including salaries and allowance but excluding bonus (if any)) of the Directors and Supervisors payable by the Company for the year ending 31 December, 2004 is expected to be approximately RMB2,174,000.

OFFERING STATISTICS

	Based on the Offer Price of HK\$8.30 per Offer Share	Based on the Offer Price of HK\$10.80 per Offer Share
Market capitalisation of the H Shares ⁽¹⁾	HK\$913 million	HK\$1,188 million
Historical price/earnings multiple		
(a) fully diluted ⁽²⁾	10 times	13 times
(b) weighted average ⁽³⁾	7 times	9 times
Adjusted net tangible asset value per Share ⁽⁴⁾	HK\$3.14	HK\$3.91

- (1) The market capitalisation of the H Shares is calculated on the basis of 110,000,000 H Shares in issue immediately after completion of the Offering, without taking into account any Shares that may fall to be issued upon the exercise of the Over-allotment Option.
- (2) The calculation of the historical price/earnings multiple on a fully diluted basis is based on the fully diluted historical earnings per Share of RMB0.88 (HK\$0.83), without taking into account any Shares that may fall to be issued upon the exercise of the Over-allotment Option.
- (3) The calculation of the historical price/earnings multiple on the weighted average basis is based on the weighted average historical earnings per Share of RMB1.29 (HK\$1.22), without taking into account any Shares that may fall to be issued upon the exercise of the Over-allotment Option.
- (4) The adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the section headed “Financial information – Adjusted net tangible assets” and on the basis of 315,000,000 Shares in issue immediately following completion of the Offering and assuming that the Over-allotment Option is not exercised.

SUMMARY

If the Over-allotment Option is exercised in full, the adjusted net tangible assets per Share will be increased, while earnings per Share on will be diluted correspondingly. The Directors believe that such increase and dilution will not be material.

RISK FACTORS

The Directors consider that there are certain risks involved in the operations of the Company. They can be categorised into (1) risks relating to the Company and its operations; (2) risks relating to the diesel engine industry and its related industries in the PRC; (3) risks relating to the PRC; and (4) risks relating to the Offering:

Risks relating to the Company and its operations

- Reliance on the sales of WD615 Engines and the relevant end-products
- Euro II and Euro III Engines may not be accepted by the market
- Reliance on a small number of customers (including the China Heavy Duty Truck Group)
- Risks relating to the diesel engine production lines and the production capacity of the Company
- Lease of certain buildings and equipment
- Risks relating to the implementation of the Company's future plans
- Risks relating to the Company's research and development and the diesel engines' market
- Dependence on key personnel
- Environmental protection requirements
- Reliance on Weichai Factory and Chongqing Weichai for transmission or supply of utilities and energy
- Risks relating to the supply of certain services and diesel engine parts to the Company
- Risks relating to the Company's leased properties
- Risks relating to foreign exchange exposure
- Reliance on the PRC market
- No assurance on the amount of future distributions

SUMMARY

Risks relating to the diesel engine industry and its related industries in the PRC

- Changes in the competitive landscape in the diesel engine industry in the PRC
- Economic development of the PRC and policies of the PRC Government

Risks relating to the PRC

- Political and economic conditions in the PRC
- China's entry into the WTO
- Changes in foreign exchange regulations
- Fluctuations of the Renminbi
- Uncertainties regarding interpretation and enforcement of the PRC laws and regulations
- Withholding tax on dividends and capital gains tax
- Submission to arbitration
- Difficulties in effecting service of process and enforcing non-PRC judgments
- Risks relating to the Severe Acute Respiratory Syndrome or other viruses or epidemics

Risks relating to the Offering

- No prior public market for the H Shares
- The liquidity and volatility of the H Shares
- Legal status of Promoter Foreign Shares
- Possible conversion of Foreign Shares into H Shares
- Dilution of shareholders' interest as a result of additional equity fund raising
- No undue reliance upon industry statistics
- World politics and economies

DEFINITIONS

In this Prospectus, unless the context otherwise requires, the following expressions have the following meanings. Certain other expressions are defined in the section headed “Glossary” in this Prospectus.

“Application Form(s)”	the white and/or yellow application form(s) (as the context may require) for the Public Offer Shares to be issued by the Company with this Prospectus
“Articles of Association”	the articles of association adopted by the Company on 20 October, 2003 (as amended)
“associate”	has the meaning ascribed to it under the Listing Rules, unless the context requires otherwise
“AVL”	AVL List GmbH, a company established in Austria
“Beiqi Futian”	北汽福田汽車有限公司 (Beiqi Futian Motor Company Limited), a company established in the PRC
“Board”	the board of Directors
“Buildings and Equipment”	as defined in the section headed “Business – Connected transactions – I. Ongoing connected transactions between the Company and Weichai Factory – 3. Lease of buildings and equipment by Weichai Factory to the Company”
“Business Day”	any day (other than Saturday) on which banks are open for business in Hong Kong
“CAGR”	compound annual growth rate
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Broker Participant”	a person admitted to participate in CCASS as a broker participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Broker Participant or a CCASS Custodian Participant or a CCASS Investor Participant

DEFINITIONS

“CHDTGL”	中國重型汽車集團有限公司 (China National Heavy Duty Truck Group Co. Ltd.), a State-owned enterprise
“China Heavy Duty Truck Group”	CHDTGL and its subsidiaries
“Chongchai Production Line”	the Company’s production line located at its premises in Chongqing for the manufacture of WD615 Engines
“Chongqing Hongyan”	重慶紅岩重型汽車有限公司 (Chongqing Hongyan Heavy-duty Motor Company Limited), a company established in the PRC
“Chongqing Weichai”	重慶濰柴發動機廠 (Chongqing Weichai Diesel Engine Works), a legal person established in the PRC and wholly-owned by Weichai Factory. Its predecessor was 重慶長江柴油機廠 (Chongqing Changjiang Diesel Engine Works)
“CIETAC”	the China International Economic and Trade Arbitration Commission
“CITIC Capital” or “Sponsor” or “Bookrunner”	CITIC Capital Markets Limited
“CLSA”	CLSA Limited
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended
“Company”	濰柴動力股份有限公司 (Weichai Power Co., Ltd.), a limited company incorporated in the PRC on 23 December, 2002, or where the context so requires in respect of any period before its incorporation, the Company’s current operations and/or assets then existed
“Company Law”	the Company Law of the PRC (中華人民共和國公司法) adopted at the Fifth Session by the Standing Committee of the Eighth National People’s Congress on 29 December, 1993 and effective from 1 July, 1994, as amended, supplemented or otherwise modified from time to time
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會), the regulatory body responsible for the supervision and regulation of the PRC’s securities markets
“Director(s)”	director(s) of the Company, including independent non-executive director(s)

DEFINITIONS

“Domestic Share(s)”	ordinary share(s) issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and paid up in Renminbi or credited as fully paid up
“Euro” or “€”	the lawful currency of the 12 European countries including Germany, France, Italy, Belgium, Spain, Ireland, Portugal, Austria, Finland, the Netherlands, Luxembourg and Greece
“Foreign Exchange Trade Centre”	China Foreign Exchange Trade Centre
“Foreign Share(s)”	ordinary share(s) issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and paid up in a currency other than Renminbi
“Fujian Longgong”	福建龍岩工程機械(集團)有限公司 (Fujian Longyan Construction Machinery (Group) Company Limited), a company incorporated in the PRC and a Promoter and is owned by Li San Yim (a non-executive Director) as to 69.16% and by Ni Yinying (who is Li San Yim’s wife) as to 30.84%
“GAAP”	generally accepted accounting principles
“GDP”	gross domestic products
“Guangxi Liugong”	廣西柳工集團有限公司 (Guangxi Liugong Group Company Limited), a company established in the PRC, and a Promoter. Guangxi Liugong is a State-owned enterprise
“Guangxi Liugong Machinery”	廣西柳工機械股份有限公司 (Guangxi Liugong Machinery Co., Ltd.), a company established in the PRC
“H Share(s)”	overseas listed Foreign Share(s) in the share capital of the Company, with a Renminbi-denominated par value of RMB1.00 each, for which an application has been made for listing and permission to deal on the Stock Exchange, and which are subscribed for and traded in Hong Kong dollars
“Hangqi”	杭州汽車發動機廠 (Hangzhou Motor Engine Factory), a legal person established in the PRC
“HK\$” or “HK dollars” and “cents”	the lawful currency of Hong Kong, where HK\$1=100 cents

DEFINITIONS

“HKIAC”	the Hong Kong International Arbitration Centre
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IVM”	IVM Technical Consultants Wien Gesellschaft m.b.H., a company established in Austria and a Promoter. IVM is indirectly owned by Julius G. Kiss, a non-executive Director
“Joint Global Coordinators”	CITIC Capital and CLSA
“Joint Lead Managers”	CITIC Capital and CLSA
“Latest Practicable Date”	12 February, 2004, being the latest practicable date for the purpose of ascertaining certain information contained in this Prospectus prior to its publication
“Listing”	the listing of, and dealings in, the H Shares on the Stock Exchange
“Listing Date”	the date of Listing
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mandatory Provisions”	the Mandatory Provisions for the Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas, which were promulgated by the CSRC and the State Restructuring Commission on 27 August, 1994, as amended and supplemented from time to time
“MOC” or “MOFTEC”	the Ministry of Commerce (中國商務部) of the PRC, whose predecessors include the Ministry of Foreign Trade and Economic Cooperation of the PRC (中國對外貿易經濟合作部)
“MOF”	the Ministry of Finance of the PRC (中國財政部)

DEFINITIONS

“Notice Relating to Foreign Exchange Control Matters for Enterprises Listed Overseas”	the Notice Relating to Foreign Exchange Control Matters for Enterprises Listed Overseas (關於境外上市企業外匯管理有關問題的通知), issued by the CSRC and MOFTEC in January 1994
“NPC” or “National People’s Congress”	the National People’s Congress of the PRC (全國人民代表大會)
“NDRC”	國家發展和改革委員會 (National Development and Reform Commission)
“NSSF Council”	全國社會保障基金理事會 (The National Social Security Fund Council of the PRC), an organisation authorised by the State Council and is responsible for the administration of the State’s national social security fund
“Offer Price”	the price of not more than HK\$10.80 and not less than HK\$8.30 per Offer Share (exclusive of brokerage, SFC transaction levy, investor compensation levy and Hong Kong Stock Exchange trading fee) for the subscription and issue or purchase of the H Shares under the Offering to be determined by agreement between CITIC Capital and the Company at or before the Price Determination Time
“Offer Share(s)”	the Public Offer Share(s) and the Placing Share(s), together with, where relevant, any additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option
“Offering” or “Global Offering”	the Public Offer and the Placing
“Offering Documents”	the Prospectus and the Application Forms
“Out-sourced part(s)”	diesel engine part(s) and component(s) the manufacture of which are out-sourced by the Company to, and/or purchased by the Company from, third parties for the production of its diesel engines
“Over-allotment Option”	the option to be granted by the Company and the Selling Shareholders (pursuant to the various approval documents issued by the SASAC and the NSSF Council, and acting through the Company) to the Placing Underwriters pursuant to the Placing Underwriting Agreement, exercisable by CITIC Capital, to require the Company to allot and issue up to an aggregate of 15,000,000 additional new H Shares, and require the Selling Shareholders to convert up to 1,500,000 Promoter Shares into H Shares and sell such H Shares, at the Offer Price solely to cover over-allocations in the Placing, if any

DEFINITIONS

“PBOC”	the People’s Bank of China, the central bank of the PRC
“PBOC Notice”	the Notice of the People’s Bank of China Concerning Further Reform of the Foreign Currency Control System (關於進一步改革外匯管理體制的公告) issued in December 1993
“PBOC Rate”	the currency exchange rate(s) determined daily by the PBOC with reference to the previous day’s interbank exchange rates in the PRC
“Peterson”	Peterson Holdings Company Limited (培新控股有限公司), a company incorporated in Hong Kong and a Promoter
“Placing”	the conditional placing of Placing Shares by the Placing Underwriters, subject to the Over-allotment Option (see the section headed “Structure of the Offering” for details)
“Placing Share(s)”	the 99,000,000 H Share(s) (comprising respectively 89,000,000 H Shares and 10,000,000 H Shares to be offered by the Company and the Selling Shareholders) under the Placing (see the section headed “Structure of the Offering” for details)
“Placing Underwriters”	the underwriters expected to enter into the Placing Underwriting Agreement referred to in the section headed “Directors, Supervisors and parties involved in the Offering” in this Prospectus
“Placing Underwriting Agreement”	the placing underwriting agreement expected to be entered into between, <i>inter alia</i> , the Company, the Selling Shareholders and the Placing Underwriters on or about 2 March, 2004 as described in the section headed “Underwriting” of this Prospectus
“PRC” or “China”	the People’s Republic of China, which, for the purpose of this Prospectus, unless otherwise specified, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC GAAP”	Accounting Standards for Business Enterprises (企業會計準則) and Accounting Regulations for Enterprises (企業會計制度) in the PRC
“PRC Government”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof

DEFINITIONS

“Price Determination Time”	5:00 p.m. on 3 March, 2004 (Hong Kong time) at which time the Offer Price will be fixed for the purpose of the Offering or such later time as the Company and CITIC Capital (on behalf of the Underwriters) may agree and in any event not later than 5:00 p.m. on 4 March, 2004
“Promoter Foreign Shares”	the 34,250,000 Foreign Shares held by two Promoters, namely IVM (as to 10,750,000 Foreign Shares) and Peterson (as to 23,500,000 Foreign Shares). Promoter Foreign Shares constitute part of the Foreign Shares
“Promoter(s)”	Weichai Factory, Peterson, Weifang Investment, Fujian Longgong, Shenzhen Investment, IVM, Shandong Trust, Guangxi Liugong and 24 natural persons, namely Tan Xuguang, Xu Xingyu, Zhang Quan, Sun Shaojun, Sun Xueke, Chen Songdong, Ding Yingdong, Dai Lixin, Han Lisheng, Feng Gang, Zhong Genghui, Wang Yong, Ma Yuxian, Liu Yuanqiang, Wang Changliang, Wang Xiaoying, Li Honggang, Li Jiajia, Wu Hongwei, Yu Rushui, Wang Tongtai, Wang Fengyi, Liu Huisheng and Tong Dehui
“Promoter Share(s)”	the 215,000,000 ordinary shares of RMB1.00 each in the capital of the Company issued to the Promoters (including Domestic Shares and Foreign Shares) upon the establishment of the Company on 23 December, 2002
“Public Offer”	the offer for subscription of the Public Offer Shares in Hong Kong for cash, on and subject to the terms and conditions stated in this Prospectus and the Application Forms
“Public Offer Share(s)”	the 11,000,000 new H Shares (subject to adjustment) being offered by the Company for subscription under the Public Offer, details are set out in the section headed “Structure of the Offering” of this Prospectus
“Public Offer Underwriter(s)”	the underwriters of the Public Offer referred to in the section headed “Directors, Supervisors and parties involved in the Offering” in this Prospectus
“Public Offer Underwriting Agreement”	the public offer underwriting agreement entered into between, inter alia, the Company and the Public Offer Underwriters on 25 February, 2004 (Hong Kong time) as described in the section headed “Underwriting” of this Prospectus

DEFINITIONS

“Reorganisation”	the establishment of the Company on 23 December, 2002 as a joint stock limited company and the transfer of certain assets and liabilities to the Company as more particularly described in the section headed “History and development, Reorganisation and corporate structure – Reorganisation” of this Prospectus
“Regulations for the Reduction of State Shares”	減持國有股籌集社會保障資金管理暫行辦法 (Provisional Administrative Measures for the Reduction of State Shares and the Raising of the Social Security Fund), which was promulgated by the State Council on 12 June, 2001, which stipulates that all State-owned joint stock limited companies shall dispose of their State-owned shares to the extent of 10% of the aggregate funds raised by such State-owned joint stock limited companies under their initial public offerings or any subsequent share offerings to the general public
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	中國國家外匯管理局 (State Administration of Foreign Exchange of the PRC)
“SASAC”	國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of the State Council)
“Securities Commission”	中華人民共和國國務院證券委員會 (Securities Commission of the State Council of the PRC) , which was dissolved in March, 1998, whilst its functions were assumed by CSRC thereafter
“Selling Shareholders”	Weichai Factory, Weifang Investment and Guangxi Liugong, being holders of certain State-owned Domestic Shares
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended
“Shaanxi Zhongqi”	陝西重型汽車有限公司 (Shaanxi Heavy-duty Motor Company Limited), a company established in the PRC
“Shandong Lingong”	山東臨沂工程機械股份有限公司 (Shandong Linyi Construction Machinery Company Limited), a company established in the PRC

DEFINITIONS

“Shandong Trust”	山東省企業托管經營股份有限公司 (Shandong Enterprise Trust Operation Company Limited), a company established in the PRC, and a Promoter
“Shanghai Longgong”	上海龍工機械有限公司 (Shanghai Longgong Machinery Company Limited), a company established in the PRC
“Share(s)”	Domestic Share(s), Foreign Share(s) and H Share(s) of the Company
“Shenzhen Investment”	深圳市創新投資集團有限公司 (Shenzhen Chuangxin Investment Group Company Limited), a company incorporated in the PRC and a Promoter
“Special Regulations”	國務院關於股份有限公司境外募集股份及上市的特別規定 (Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies), which were promulgated by the State Council on 4 August, 1994, as amended, supplemented or otherwise modified from time to time
“State”	the Central Government of the PRC
“State Council”	中華人民共和國國務院 (State Council of the PRC)
“State Development and Planning Commission”	中華人民共和國國家發展計劃委員會 (State Development and Planning Commission of the PRC), which was restructured into NDRC according to a resolution passed by the NPC on 10 March, 2003
“State-owned Domestic Share(s)”	the Domestic Share(s) held by Weichai Factory, Weifang Investment, Shenzhen Investment and Guangxi Liugong, separately
“State Plans”	plans devised and approved and implemented by various authorities of the State relating to the economic and social development of the PRC
“State Restructuring Commission”	中華人民共和國國家經濟體制改革委員 (State Commission for the Restructuring of the Economic System of the PRC), which ceased to function in 1998 pursuant to the Notice of the State Council regarding organisation structure (國務院關於機構設置的通知), and its main functions have been transferred to NDRC

DEFINITIONS

“Steyr”	Man Steyr AG, a company established in Austria and, with respect to the period prior to the establishment of Man Steyr AG, the relevant asset(s), technology and/or business(es) of Steyr-Daimler-Puch Aktiengesellschaft that was/were injected into Man Steyr AG
“Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Supervisor(s)”	the member(s) of the supervisory committee of the Company
“Track Record Period”	the three years ended 31 December, 2003
“Underwriters”	the Public Offer Underwriters and the Placing Underwriters
“US” or “United States”	the United States of America
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States
“Vigers”	Vigers Appraisal & Consulting Limited
“Weichai Deutz”	濰坊濰柴道依茨柴油機有限公司 (Weifang Weichai Deutz Diesel Engine Co., Ltd.), a company established in the PRC
“Weichai Factory”	濰坊柴油機廠 (Weifang Diesel Engine Works), a legal person established in the PRC, and a Promoter. Weichai Factory is wholly owned by CHDTGL
“Weichai Gas”	濰坊濰柴培新氣體發動機有限責任公司 (Weifang Weichai Peterson Gas Diesel Engines Company Limited), a company established in the PRC
“Weichai Production Line”	the Company’s production line located at its premises in Weifang, Shandong Province for the manufacture of WD615 and WD618 Engines
“Weifang Investment”	濰坊市投資公司 (Weifang Investment Company), a legal person established in the PRC and a promoter of the Company, Weifang Investment is a State-owned enterprise
“WTO”	the World Trade Organisation
“£”	the lawful currency of the United Kingdom

GLOSSARY

“Euro I Engine(s)”	engine(s) which meet the Euro I Standards
“Euro I” or “Euro I Standards”	the set of standards that limits the emission of carbon monoxide at 4.5 g/kWh, hydrocarbons at 1.1 g/kWh, nitrogen oxides at 8.0 g/kWh, and particulate matters at 0.36 g/kWh
“Euro II Engine(s)”	engine(s) which meet the Euro II Standards
“Euro II” or “Euro II Standards”	the set of standards that limits the emission of carbon monoxide at 4.0 g/kWh, hydrocarbons at 1.1 g/kWh, nitrogen oxides at 7.0 g/kWh, and particulate matters at 0.15 g/kWh
“Euro III Engine(s)”	engine(s) which meet the Euro III Standards
“Euro III” or “Euro III Standards”	the set of standards that limits the emission of carbon monoxide at 2.1 g/kWh, hydrocarbons at 0.66 g/kWh, nitrogen oxides at 5.0 g/kWh, particulate matters at 0.13 g/kWh, and smoke at 0.8 g/kWh
“heavy-duty vehicle(s)”	vehicle(s) with load capacity of 8 tonnes (or above), such as tractors, trucks and dumpers, but excluding passenger cars such as coaches
“kW”	1 kiloWatt is equal to 1.36 horsepower
“kWh”	kiloWatthour
“WD615” or “WD615 Engine(s)”	the water-cooled, linear, 6-cylinder, turbo-charging, direct-injection high-speed diesel engine(s) with a displacement of 9.726 litres, manufactured by the Company
“WD618” or “WD618 Engine(s)”	a new series of diesel engines developed based on the WD615 series with a displacement of 11.596 litres, manufactured by the Company

RISK FACTORS

Investors should consider carefully all of the information set out in this Prospectus and, in particular, should evaluate the following risks in connection with investing in the Company, certain of which are not typically associated with investing in equity securities of companies from Hong Kong or other economically advanced jurisdictions. For more information concerning the PRC and certain related matters discussed below, see appendix IV to this Prospectus – “Summary of principal legal and regulatory provisions and Articles of Association”.

The Directors consider that there are certain risks involved in the operations of the Company. They can be categorised into: (1) risks relating to the Company and its operations; (2) risks relating to the diesel engine industry and its related industries in the PRC; (3) risks relating to the PRC; and (4) risks relating to the Offering.

(1) RISKS RELATING TO THE COMPANY AND ITS OPERATIONS

Reliance on the sales of WD615 Engines and the relevant end-products

At present, WD615 Engines are the principal products of the Company and they are mainly used in heavy-duty vehicles and construction machines. For the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the sales of WD615 Engines accounted for approximately 97% of the total sales of the Company. However, the Company cannot guarantee that the sales of WD615 Engines will continue to increase or maintain at its existing level in the future. Any changes in the markets for WD615 Engines and/or the relevant end-products, such as heavy-duty vehicles and/or construction machines, may materially affect the production and sale of WD615 Engines and, in turn, the profitability and financial conditions of the Company.

Euro II and Euro III Engines may not be accepted by the market

Pursuant to the relevant laws and regulations in the PRC, with effect from September 2004, all new vehicles are required to use diesel engines that comply with Euro II Standards. The Company commenced the sale of Euro II Engines on a small scale basis in 2002. For the year ended 31 December, 2003, sales of Euro II Engines accounted for approximately 9.3% of the Company's turnover. The Company is capable of mass producing Euro II Engines and will commence large-scale production if and when there is demand from its customers. The sale prices of Euro II Engines are higher than those of Euro I Engines due to higher production costs. The Company has also entered into an agreement with AVL to, *inter alia*, upgrade the Company's WD615 and WD618 Engines to meet Euro III Standards. As the Company has not yet commenced mass production of Euro II Engines and its Euro III Engines are still at the initial development stage, there is no assurance that the market will find the Company's selling prices and quality for such Engines acceptable. If the sales of Euro II and (if successfully developed) Euro III Engines are unsatisfactory due to over-pricing or if price reduction is necessary, the profitability and financial conditions of the Company will be adversely affected.

RISK FACTORS

Reliance on a small number of customers (including the China Heavy Duty Truck Group)

As at 31 December, 2003, the Company had over 2000 customers. For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the five largest customers of the Company accounted for approximately 60.7%, 57.1% and 53.2% of the Company's turnover, respectively and the China Heavy Duty Truck Group¹ accounted for approximately 27.5%, 26.3%, and 24.6%, of the Company's turnover, respectively. The Company's largest customer accounted for approximately 23.6%, 20.6% and 20.3%, respectively of the Company's turnover for each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003. The major customers of the Company comprise leading manufacturers in their respective industries, such as the China Heavy Duty Truck Group¹, Shaanxi Zhongqi, Chongqing Hongyan and Beiqi Futian in the heavy-duty vehicle industry and Guangxi Liugong², Fujian Longgong² and Shandong Lingong in the construction machine industry. Should the Company lose one or more such customers, or they reduce their purchases from the Company (because, for example, but without limitation, they lose market shares to their competitors or encounter operational, financial or regulatory difficulties), the Company may have difficulties in finding substitute customers with similar demand for the Company's products or securing orders from other end-product manufacturers in the same industries, and as such the Company's business, operations and financial conditions will be adversely affected.

Notes:

1. *Weichai Factory, a substantial shareholder of the Company, is wholly-owned by CHDTGL, which, therefore, is an associate of Weichai Factory and thus a connected person of the Company (within the meaning of the Listing Rules).*
2. *A connected person of the Company (within the meaning of the Listing Rules).*

Risks relating to the diesel engine production lines and the production capacity of the Company

The diesel engine production lines of the Company consist of the Weichai Production Line and the Chongchai Production Line and the business operations of the Company substantially rely on the capacities of these two production lines. As a result of the successive technological upgrades by the Company, the Company produced approximately 80,400 diesel engines in 2003. However, in the event that the expected production capacity cannot be attained after such technological upgrades and improvements, the ability of the Company to cope with the increasing demand and hence its growth and development will be hindered.

Lease of certain buildings and equipment

The Company entered into an asset lease agreement with Weichai Factory in relation to the lease of certain buildings (including factory building and warehouse) situated within Weichai Factory (the "Buildings") and all the equipment (collectively known as the "Equipment") located in the Buildings for the manufacture of certain semi-finished diesel engine parts required by the Company (such Buildings and Equipment collectively are

RISK FACTORS

commonly known as the casting and forging workshop) for a term of 5 years commencing on 1 July, 2003 at an annual rental of RMB42,814,310, and Weichai Factory has also granted to the Company a right to renew the lease for successive terms and an option to purchase such Buildings and Equipment. Also, the Company entered into a lease agreement with Chongqing Weichai in relation to the lease of certain land and buildings situated thereon (the “Chongqing Properties”) for a term of 5 years effective from 1 July, 2003 at an annual rent of RMB3,404,000. For details, please refer to the section headed “Business – Connected transactions” in this Prospectus. If the Company is unable to operate (due to breach of the relevant leases), or have the service of, such Buildings and Equipment and/or the Chongqing Properties and produce the relevant parts, the production of the Company will be adversely affected.

Risks relating to the implementation of the Company’s future plans

The Company’s future growth is primarily dependent upon the successful implementation of its strategies and future plans. Please refer to the section headed “Future plans and prospects” in this Prospectus for details of the Company’s strategies and future plans. In addition, the implementation of such strategies and plans may be affected by many factors, such as changes in the competitive landscape in the industry, the availability of technological resources, changes in demand and market trends, the emergence of new model products, changes in government policy or administrative rules in relation to major projects of the Company. If any of the Company’s strategies and plans cannot be successfully implemented, its business, operations, and financial conditions may be adversely affected.

Risks relating to the Company’s research and development and the diesel engines’ market

The Company is currently working with Tianjin University and Shandong University on several research and development projects, including reducing the noise of diesel engines and improving the performance of the Company’s current models of diesel engines. Also, the Company has entered into an agreement with AVL to upgrade the Company’s WD615 and WD618 Engines to meet Euro III Standards and develop different power variants of the WD615 and WD618 Engines. The Company intends to use approximately RMB80 million of the proceeds of the Offering for the above project. However, the Company cannot guarantee that any of its future research and development projects will succeed or will complete or the Company’s products will meet the Euro III Standards within the expected time limit. Furthermore, the Company cannot guarantee that the products of its research and development projects will be well received by the market. Therefore, if the Company cannot modify its existing products according to its original plan or the new products are not well received by the market, the business, operations and financial conditions of the Company may be adversely affected. For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the research and development expenses of the Company were approximately RMB2,937,000, RMB3,833,000 and RMB39,412,000, respectively.

RISK FACTORS

Dependence on key personnel

The Company's operations are dependent upon the experience and customer relationships of a small number of key executives, including the executive Directors and the senior management officers, who were previously employed by Weichai Factory for more than 15 years. For details of the qualifications and experience of the Directors and senior management, please refer to the section headed "Directors, Supervisors and senior management" in this Prospectus. Each of the executive Directors has entered into a service agreement with the Company and undertaken to the Company that he will not use the property and/or disclose the information of the Company entrusted to him for the benefit of the competitors of the Company. However, the protection to the Company as provided in such agreements under the PRC law may not be as extensive as that under the laws of other jurisdictions. Therefore, any loss of the services of the key executives or violation of any provisions of such agreements may have a material adverse impact on the Company's business, operations and financial conditions.

Environmental protection requirements

The Company is required to comply with the environmental protection laws and regulations promulgated by the PRC Government. Due to the nature of the Company's operations, a certain amount of dust, waste and noise are produced during its production process. Moreover, the PRC Government and the relevant local authorities may promulgate new environmental laws and regulations in the future, the compliance with which will require that the Company upgrades or modifies its existing facilities. Any additional costs so incurred may have an adverse effect on the profitability and financial conditions of the Company. In addition, if any stringent laws and regulations are imposed on the Company, the Company may also face financial pressure which may result in the reduction or cessation of production of certain products of the Company.

Reliance on Weichai Factory and Chongqing Weichai for transmission or supply of utilities and energy

Except for electricity, water, and gas, all other utilities and energy currently consumed by the Company are supplied by Weichai Factory* and Chongqing Weichai* pursuant to the respective utility services agreements entered into between the Company (on the one part) and Weichai Factory and Chongqing Weichai respectively (on the other part) (further details are set out in the section headed "Business-Connected transactions" in this Prospectus). The Company also uses the facilities of Weichai Factory and Chongqing Weichai, respectively for the transmission of electricity, water and gas to the Company's production facilities. For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the expenses incurred for the consumption of such utilities and energy transmitted or supplied by Weichai Factory to the Company accounted for approximately 1.4%, 1.0% and 2.0% of the Company's costs of sales, respectively. As the Company only leased properties from Chongqing Weichai with effect from 1 July, 2003, Chongqing Weichai only provided utility and energy services to Chongqing Branch for the six months ended 31 December, 2003, which accounted for approximately 0.3% of the Company's costs of sales in the year ended 31 December, 2003. If Weichai Factory and/or Chongqing Weichai suspends the transmission or provision of such utilities and energy services to the Company, the Company may not be able to secure similar services on similar or better terms from other sources or through other transmission facilities (as the case may be), and the production of the Company may be adversely affected.

* A connected person of the Company (within the meaning of the Listing Rules)

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Risks relating to the supply of certain services and diesel engine parts to the Company

Currently, the Company engages certain of its connected persons, namely Weichai Factory, Chongqing Weichai and the China Heavy Duty Truck Group, for the supply of certain services and diesel engine parts, the details of which are set out in the section headed “Business-Connected transactions” in this Prospectus. These services and diesel engine parts are important to the manufacture of diesel engines by the Company, and the future relationships between the Company and these connected persons and the performance of their obligations under their respective agreements with the Company will be critical to the continued success of the Company’s business and operations. Should any of these connected persons suspend or discontinue the provision of the relevant services or the supply of the relevant diesel engine parts to the Company for any reason, the Company may not be able to secure similar services on similar or better terms from an independent third party in the market and the business and operations of the Company may be adversely affected. For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the supply of certain services and diesel engine parts from the Company’s connected persons accounted for approximately 8.6%, 6.0% and 5.0% of the Company’s costs of sales, respectively.

Risks relating to the Company’s leased properties

As at the Latest Practicable Date, there were 20 properties leased by the Company for service centre uses (being those offices responsible for certain administrative, management and marketing assistance tasks, further details of which are set out in the section headed “Business - After-sales services” in this Prospectus) in the PRC which the Company is unable to ascertain whether the landlords have titles to the respective properties or the rights or authorisations to lease the respective properties to the Company. The Company also understands that it is not uncommon that landlords in the PRC do not have registered titles of their properties, because, for example, with respect to properties which were constructed a long time ago and are situated in remote areas, the landlords are unable to obtain the relevant titles, or they simply choose to avoid the prolonged and complicated registration process for obtaining titles to the properties. If the landlord of any of the leased properties does not have title to that property or the right or authorisation to lease the property, the relevant lease agreement would not be valid under PRC laws and regulations. Accordingly, it is possible that the real owner of that property would have the right to take possession and may request the Company to vacate the property.

As at the Latest Practicable Date, 16 leases in respect of the properties leased by the Company for service centre uses in the PRC have not been registered and filed with the relevant land and real estate administration bureau. The absence of such filing and registration may result in the lack of protection for the Company, as lessee, against third parties and administrative penalties may be imposed on the Company.

Although as at the Latest Practicable Date, the Company was not aware of any claims or allegations in respect of the title of the Company’s leased properties nor had the Company received any notice of vacation from its landlords, there is no assurance that the above events will not occur.

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Risks relating to foreign exchange exposure

The Company requires raw materials, Out-sourced parts and equipment to be imported from outside the PRC from time to time. The Company obtained the relevant import and export rights in June 2003 to handle its relevant needs and commenced to handle the import and export arrangements on its own in November 2003. As such, purchases and sales of the Company made in currencies other than Renminbi is expected to increase in the future due to such arrangements. Prior to that, 山東濰柴進出口有限公司 (Shandong Weichai IMP. & EXP. Corp., a legal person wholly owned by Weichai Factory) handled the import and export arrangements for the Company. For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the Company's purchases attributable to the import and export arrangements with Shandong Weichai IMP. & EXP. Corp. were approximately RMB66.7 million, RMB154.4 million and RMB173.9 million, respectively, representing approximately 10.3%, 10.6% and 6.5% of its costs of sales, respectively. For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the Company's sales attributable to the import and export arrangements with Shandong Weichai IMP. & EXP. Corp. were approximately RMB0.4 million, RMB10.7 million and RMB7.0 million, respectively, representing approximately 0.1%, 0.6% and 0.2% of its turnover, respectively. As the Company's financial statements are principally prepared in Renminbi, the Company's cost of sales and profitability may be adversely affected in the event of any fluctuation of the rates of exchange of the currencies in which the Company's purchases and sales are respectively denominated and Renminbi.

Reliance on the PRC market

Currently, substantially all the Company's products are sold to the PRC market. If there is any adverse change in the economic, political, social and legal conditions in the PRC, the Company's sales and profitability may be adversely affected. For details of the risks relating to the PRC, please refer to the section headed "Risk factors – Risks relating to the PRC" in this Prospectus.

No assurance on the amount of future distributions

In October 2003, the Company declared an interim dividend of RMB0.095 per Share amounting to approximately RMB20,439,000 in cash to its then shareholders, which was paid in 2003 in full. On 19 December, 2003, the Board proposed a final dividend for 2003 of RMB0.105 per Share payable in cash to its then shareholders (aggregating approximately RMB22,575,000), which was approved by the Company's extraordinary general meeting held on 18 February, 2004. The payment of any dividend by the Company prior to the Listing should not be used as a reference for the Company's future dividend policy, nor should it be used as a basis upon which to forecast the amount of dividends which the Company may pay in the future. There is no assurance that the Company will in the future pay dividend of an amount or at a rate similar to those prior to the Listing. The amount of dividend to be paid by the Company in the future will be subject to the recommendation of the Directors after taking

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into account of, inter alia, the Company's earnings, financial conditions, business needs, prospects, cash requirements and availability, and other relevant factors. For details of the Company's dividend policy, please refer to the section headed "Financial information – Dividend policy and distributable reserve" in this Prospectus.

(2) RISKS RELATING TO THE DIESEL ENGINE INDUSTRY AND ITS RELATED INDUSTRIES IN THE PRC

Changes in the competitive landscape in the diesel engine industry in the PRC

The competitive landscape in the industry may change due to the emergence of new entrants in the industry or the increase in the strength of existing competitors.

As the diesel engine industry in the PRC continues to develop, the Company has to improve its existing products and develop new products to stay competitive. As such, the long-term prospects of the Company will depend to a large extent on the ability of the Company to develop and launch new or enhanced products at competitive prices. Future product development of the Company may require the use of technologies and market knowledge which have not yet been acquired or developed by the Company. In addition, the Company's competitors may introduce new or enhanced diesel engine models which are better received by the market. Any failure or delay of the Company in introducing new or enhanced products at competitive prices may have a significant impact on the business and prospects of the Company.

Economic development of the PRC and policies of the PRC Government

As a result of the heavy infrastructure investments carried out in the PRC and its fast GDP growth in the past few years, expenditures in the heavy machinery market of the PRC have been increasing, particularly in the heavy-duty vehicle and construction machinery industries. From 1998 to 2002, the sales of heavy-duty vehicles and construction machines have attained CAGRs of approximately 60.8% and 27.5%, respectively.

For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, sales to the heavy-duty vehicle industry accounted for approximately 49.4%, 54.4% and 54.9%, respectively of the Company's turnover, while sales to the construction machinery industry accounted for approximately 41.5%, 38.1% and 38.8%, respectively of the Company's turnover. However, if adjustments are made to the above-mentioned economic policies or if there is any change of market demand, the Company's sales to the heavy-duty vehicle industry and construction machinery industry will be adversely affected.

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(3) RISKS RELATING TO THE PRC

Currently, all the Company's assets are located in the PRC and substantially all of its revenues are derived from its operations in the PRC. As a result, the Company's business, operations and financial conditions are subject to the economic, political, social and legal conditions in the PRC.

Political and economic conditions in the PRC

The political system and economy of the PRC differ in many ways from those of most developed countries.

Before its implementation of the economic reform and open door policies in 1978, China's economy was primarily a planned economy. Since then, the PRC Government has been reforming the PRC economic system, and it has also begun reforming the government structure in recent years. These reforms have resulted in significant economic growth and social progress. Although the PRC Government still owns a significant portion of the productive assets in China, economic reform policies since the late 1970's have emphasised on the autonomous enterprise business model and the utilisation of market mechanisms. The Directors believe that the reforms in the political, economic and social conditions, laws, regulations and policies of the PRC will generally have a positive effect on the Company's overall and long-term development. However, there is no assurance that these reforms will not adversely affect certain aspects of the Company's business, operations and financial conditions.

China's entry into the WTO

The PRC became a member of the WTO in December 2001. WTO membership requires the PRC Government to lower or eliminate current import tariffs on a variety of goods, including diesel engine products and the related end-products. As far as the Directors are aware, after the PRC's entry into the WTO, import tariffs on vehicles of different tonnages are as follows:

Tonnage	Rate of import tariff upon accession to the WTO	Final rate of import tariff	Final date of implementation
5–14	30%	20%	1 January, 2005
14–20	25%	20%	1 January, 2004
Over 20	24%	15%	1 January, 2004

The lowering of such import tariffs may lead to an increase in the number of imported vehicles in the PRC. The import tariffs on diesel engines with power above 132kW will remain at the rate of 9%, and the output of a majority of the WD615 and WD618 Engines are above the 132kW level. However, the exact impact on the Company's business cannot be assessed accurately at this time. Potential investors should be aware of the risk that the demand for the Company's products may fall and the operations and financial conditions of the Company may be adversely affected as a result of China's entry into the WTO.

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Changes in foreign exchange regulations

Under the existing foreign exchange regulations in China, following the completion of the Offering, the Company may undertake current account foreign exchange transactions, including payment of dividends, without the need to obtain prior approval from the SAFE by producing the commercial documents evidencing such transactions, provided that they are processed through Chinese banks licensed to engage in foreign exchange transactions. The PRC Government has publicly stated that it intends to make the Renminbi freely convertible in the future. However, uncertainty exists as to whether the PRC Government may restrict access to foreign currency for current account transactions due to scarcity of foreign currency in the PRC or other political or economic factors.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, are still subject to limitations and require the prior approval of the SAFE. These limitations could affect the Company's ability to obtain foreign currency for sourcing raw materials or Out-sourced parts or for capital expenditures. If, due to these limitations on foreign exchange, the Company cannot obtain the required foreign currency in a timely manner, the Company's business, operations and financial conditions may be adversely affected.

Fluctuations of the Renminbi

The value of the Renminbi is subject to changes of the PRC Government's policies and depends to a large extent on the PRC's domestic and international economic and political developments, as well as the supply and demand in the local market. Since 1994, the official exchange rate for the conversion of the Renminbi to the US dollar has been stable in general, and the Renminbi has appreciated slightly against the US dollar. However, given the economic instability and currency fluctuations in Asia in recent years, there is no assurance that the value of the Renminbi will remain stable against the US dollar or any other foreign currency. Any fluctuation of the Renminbi against the US dollar or any other foreign currency may adversely affect the Company's operations.

In addition, any devaluation of the Renminbi against Hong Kong dollars may also adversely affect the value of and dividends payable on the H Shares.

Uncertainties regarding interpretation and enforcement of the PRC laws and regulations

The PRC legal system is based on statutory law. Under this system, prior court decisions may be cited as persuasive authority but do not have binding precedential effect. Since 1979, the PRC Government has been developing a comprehensive system of commercial laws and considerable progress has been made in the promulgation of laws and regulations dealing with economic matters, such as corporate organisation and governance, foreign investment, commerce, taxation and investment. For example, at present, the regulatory framework for the

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securities industry in the PRC is at an early stage of development. The CSRC is responsible for administering and regulating the national securities markets and drafting regulations for the regulation of the national securities markets. As these laws, regulations and legal requirements are relatively new, and with a limited volume of published cases and judicial interpretations available and their non-binding nature, the interpretation and enforcement of such laws, regulations and legal requirements involve a certain degree of uncertainty.

Withholding tax on dividends and capital gains tax

Under current PRC tax laws, rules and regulations, dividends paid by the Company to holders of H Shares who are foreign individuals not being PRC citizens or foreign enterprises with no permanent establishment in the PRC are not currently subject to the PRC withholding tax. In addition, gains realised by the aforesaid individuals or enterprises upon the sale or other disposition of H Shares are not currently subject to the PRC capital gains tax. There is no assurance, however, that withholding or capital gains taxes will continue to be exempted to such dividends or gains in the future and holders of H Shares could become subject to withholding tax on dividends, or capital gains tax, unless reduced or eliminated by an applicable taxation treaty between the PRC and the country in which such foreign individual or enterprise resides.

Submission to arbitration

The Articles of Association require holders of H Shares having a claim against or a dispute with the Company, a Director, a Supervisor or a manager or officer of the Company or a holder of the Promoter Shares relating to any rights or obligations conferred or imposed by the Articles of Association, the Company Law and other PRC laws or administrative regulations and relating to the Company's affairs, to submit their dispute or claim to the CIETAC or the HKIAC for arbitration. The Articles of Association further provide that the arbitrator's award shall be final and binding on all parties.

The PRC is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention"), which historically permitted reciprocal enforcement in the PRC of awards of arbitral bodies located in other New York Convention signatory countries. Following the resumption of sovereignty over Hong Kong by the PRC on 1 July, 1997, the New York Convention no longer applies to the enforcement of Hong Kong arbitration awards in other parts of the PRC. An arrangement was made between Hong Kong and the PRC for the mutual enforcement of arbitration awards. This arrangement was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council, and became effective on 1 February, 2000. As far as the Directors are aware, no action has been brought in the PRC by any public shareholder of a PRC company to enforce an arbitration award granted in Hong Kong since 1 February, 2000, and the outcome of enforcing such an arbitration award in the PRC under the new arrangement is therefore uncertain.

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Difficulties in effecting service of process and enforcing non-PRC judgments

The Company is a joint stock company with limited liability incorporated in the PRC. Substantially all of its Directors, Supervisors and executive officers reside within the PRC, and the Directors believe that substantially all of the assets of such persons are located within the PRC. Therefore, it may not be possible for investors to effect the service of process upon those persons in the PRC or enforce any judgments obtained from non-PRC courts against them in the PRC. There is no treaty or arrangement between the PRC and Hong Kong, the United Kingdom, the United States or most other western countries for the recognition and enforcement of judgments of the courts, therefore recognition and enforcement of judgments obtained in such jurisdictions in the PRC may be difficult.

Risks relating to the Severe Acute Respiratory Syndrome or other viruses or epidemics

Between April and July 2003, the Severe Acute Respiratory Syndrome (“SARS”) outbreak severely affected the economies across the Asia-Pacific region. The financial effect of such outbreak has been costly, while regional growth (including that of Hong Kong and the PRC) has been under threat. Tourism, consumer spending and commerce, in particular, have suffered, which may also adversely affect directly and/or indirectly the business of the Company and/or its customers in terms of sales, production and other aspects of operations. Although this epidemic has since subsided, its reoccurrence is possible and it might even become seasonal. In January 2004, an outbreak of the A(H5N1) strain of avian influenza occurred in East Asia. Although, as at the Latest Practicable Date, all of the confirmed cases of infections appeared to have involved people who had direct or indirect contact with live birds or their waste and the disease had not yet been shown capable of passing from person to person. It is possible that its outbreak will spread in other countries in Asia and pose a threat to human health. With respect to the Company, in the event of any future outbreak of SARS or other viruses or epidemics, the health of its employees might be affected, which would have an adverse effect on its production especially if they are required to be quarantined, and hence the Company’s profitability, and the marketing activities of the Company such as promotional events and client visits might also be hampered or slowed down considerably.

(4) RISKS RELATING TO THE OFFERING

No prior public market for the H Shares

Prior to the Offering, there was no public market for the Company’s H Shares. The determination of the Offer Price for the H Shares was the result of negotiations between the Company and CITIC Capital, on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for the H Shares following the Offering. The Company has applied to list and deal in the H Shares on the Stock Exchange. However, being listed on the Stock Exchange does not guarantee that an active trading market for the Company’s H Shares will develop following the Offering.

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The liquidity and volatility of the H Shares

The price and trading volume of the Company's H Shares may be highly volatile. Factors such as variations in the Company's revenues, earnings and cash flows and announcements of new investments, strategic alliances and/or acquisitions, fluctuations in market prices for the Company's products and services or fluctuations in market prices for similar companies could cause the market price of the H Shares to change substantially. Any such developments may result in large and sudden changes in the volume and price at which the H Shares will trade. There is no assurance that these developments will not occur in the future. In addition, shares of other PRC companies listed on the Stock Exchange and shares of other similar companies have experienced substantial price volatility in the past, and it is possible that the H Shares will be subject to changes in price that may not be directly related to the Company's financial or business performance.

Legal status of Promoter Foreign Shares

Set out below is a summary of the legal opinion of Zhong Lun Law Firm, legal advisers to the Company as to PRC law, on the rights attached to Promoter Foreign Shares.

Although the Mandatory Provisions provide for the definitions of "domestic shares", "foreign shares" and "overseas listed foreign shares" (which definitions have been adopted in the Articles of Association), the rights attached to Promoter Foreign Shares (which are subject to certain restrictions on transfer as referred to in this Prospectus and may become H Shares upon obtaining the requisite approvals from, among other bodies, the CSRC and the Stock Exchange) are not expressly provided for under the existing PRC laws or regulations. However, the creation and the subsistence of the Promoter Foreign Shares do not contravene any PRC laws or regulations.

At present, there are no PRC laws and regulations governing the definition and legal status of the Promoter Foreign Shares. The Company's PRC legal advisers have advised that until new laws or regulations are introduced in this respect, holders of Promoter Foreign Shares will be treated as if they are in the same class as the holders of Domestic Shares (in particular, in respect of the rights to receive notice of general meetings and class meetings and to attend and vote at such meetings), except that holders of Promoter Foreign Shares enjoy the following additional rights:

- (a) to receive dividends declared by the Company in foreign currencies;
- (b) in the event of the winding up of the Company, to remit their respective shares in the remaining assets (if any) of the Company in foreign currencies out of the PRC in accordance with the applicable foreign exchange laws and regulations in the PRC.

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No provision is made for the settlement of disputes between holders of Promoter Foreign Shares and holders of Domestic Shares in the Mandatory Provisions or the Articles of Association. According to the existing PRC laws and regulations, in the case of disputes between holders of Promoter Foreign Shares and holders of Domestic Shares, if no settlement after negotiation or mediation can be reached among themselves, either party could choose an arbitration institution in the PRC or Hong Kong to conduct arbitration for dispute resolution pursuant to a written arbitration agreement; if there is no prior arbitration agreement and the parties are not able to reach an agreement to arbitrate their disputes, either party could bring suit in the PRC courts with competent jurisdiction.

According to the requirements under clause 163 of the Mandatory Provisions and article 190 of the Articles of Association, in general, disputes between holders of H Shares and holders of Domestic Shares are required to be settled through arbitration. Such dispute resolution requirements are equally applicable to disputes between holders of H Shares and holders of Promoter Foreign Shares.

Possible conversion of Promoter Foreign Shares into H Shares

At present, there are no specific approval procedures under the applicable PRC laws and regulations governing the conversion of Foreign Shares into H Shares. As advised by the Company's PRC legal advisers, the following conditions must be satisfied before the Promoter Foreign Shares (forming part of the Promoter Shares) can be converted into H Shares with a listing on the Stock Exchange:

- (a) a period of three years must have elapsed from the date on which the Company was established as a joint stock limited company;
- (b) the approvals from the original approving authority or authorities in the PRC for the establishment of the Company being obtained by IVM or Peterson for the conversion of their respective Promoter Foreign Shares into H Shares after the expiry of the three-year restriction period for any transfer of the Promoter Shares, including the Promoter Foreign Shares (in the case of the Company, the three-year restriction period will end on 22 December, 2005);
- (c) the approval from the CSRC being obtained by the Company for the conversion of the Promoter Foreign Shares into H Shares;
- (d) approval being granted by the Stock Exchange for listing of and permission to deal in the new H Shares converted from the Promoter Foreign Shares;
- (e) approval being obtained from the shareholders at a general meeting of the Company and holders of the H Shares and the Domestic Shares (including Promoter Foreign Shares) at their respective class meetings to authorise the conversion of the Promoter Foreign Shares into H Shares in accordance with the Articles of Association; and

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- (f) full compliance with relevant PRC laws, rules, regulations and regulatory documents governing companies incorporated in the PRC seeking permission to list their shares outside the PRC and with the Articles of Association and any agreement among the shareholders of the Company.

When all of the conditions mentioned above and other conditions as may be imposed from time to time by the Stock Exchange have been satisfied, Promoter Foreign Shares can be converted into H Shares with a listing on the Stock Exchange.

Investors should note that if all the Promoter Foreign Shares are converted into new H Shares, the total number of H Shares will increase by approximately 10.87% of the issued Shares immediately after completion of the Offering (assuming that the Over-allotment Option is not exercised) and the price of H Shares may be adversely affected as a result.

In addition, since Promoters are not considered to be members of public, the Company will have to apply to the Stock Exchange for a waiver from strict compliance with the Listing Rules in relation to the requirement that all H Shares must be held by the public. There can be no assurance that such waiver will be granted.

Dilution of shareholders' interest as a result of additional equity fund raising

The Company may need to raise additional funds in the future to finance expansion of or new developments relating to its existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company other than on a pro rata basis to existing shareholders, the percentage ownership of the shareholders of the Company may be reduced, shareholders may experience subsequent dilution and/or such securities may have rights, preferences and privileges senior to the H Shares.

No undue reliance upon industry statistics

Statistical and other information relating to the industry under the sections headed "Summary", "Risk Factors", "Industry Overview" and "Business" in this Prospectus have been compiled from various publicly available official or unofficial sources or from communications with government officials. The Directors have taken reasonable steps to ensure that the statistical and other information have been derived on such sources, which have not been verified independently by the Company. As such, neither the Company, the Sponsor, the Underwriters nor other parties involved in the Offering are able to guarantee the quality of such information. Moreover, statistics derived from multiple sources may not be prepared on a comparable basis. No representation is made by the Company, the Sponsor, the Underwriters or other parties involved in the Offering as to the accuracy of any such information, which may not be consistent with other information collected within or outside the PRC. Accordingly, the industry information and statistics contained herein may not be accurate and should not be unduly relied upon.

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World politics and economies

The assault to the World Trade Center in the United States on 11 September, 2001 triggered the “anti-terrorism” war by the United States against Afghanistan at the end of 2001. On 20 March, 2003, the United States waged another “anti-terrorism” war against Iraq. These wars might continue to have considerable impact on the global political situation and economy over time and may have an adverse impact on the Company’s business, operations and financial conditions.

INFORMATION ABOUT THIS PROSPECTUS AND THE OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This Prospectus includes particulars given in compliance with the PRC Company Law, the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purposes of giving information to the public with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this Prospectus misleading.

CSRC APPROVAL

CSRC has given its approval for the Offering and the making of an application by the Company to list the H Shares on the Stock Exchange. In granting such approval, CSRC accepts no responsibility for the financial soundness of the Company nor the accuracy of any of the statements made or opinions expressed in this Prospectus or in the related application forms.

CONDITIONS OF THE OFFERING

The Offering and the obligations of the Public Offer Underwriters to severally apply or procure applications for the Public Offer Shares are conditional upon (a) the grant or agreement to grant by the Listing Committee of the listing of, and permission to deal in, all the H Shares to be offered under the Offering as mentioned in this Prospectus (including the H Shares to be issued and sold pursuant to the Over-allotment Option) on the Stock Exchange having occurred and become effective (either unconditionally or subject only to allotment and issue and/or despatch or availability for collection of H Share certificates in respect of the relevant Offer Shares and/or such other conditions as may be acceptable to CITIC Capital (for itself and on behalf of the Public Offer Underwriters and, if the Placing Underwriting Agreement is entered into, the Placing Underwriters)) and such grant or agreement to grant not having been subsequently revoked; (b) fulfilment of certain other conditions set out in the Public Offer Underwriting Agreement; and (c) the Placing Underwriting Agreement having been duly executed and delivered and having become unconditional in accordance with its terms (save and except any condition relating to the Public Offer Underwriting Agreement having become unconditional) and the Public Offer Underwriting Agreement and (if entered into) the Placing Underwriting Agreement not having been terminated in accordance with their respective terms prior to 8:00 a.m. on the Listing Date, in each case on or before the dates and times specified in the Public Offer Underwriting Agreement and (if entered into) the Placing Underwriting Agreement (unless and to the extent such conditions are waived on or before such dates and times) but in any event not later than 27 March, 2004.

INFORMATION ABOUT THIS PROSPECTUS AND THE OFFERING

OFFERING AND UNDERWRITING

This Prospectus is published solely in connection with the Offering. For applicants under the Public Offer, attention is drawn to the terms and conditions of the Public Offer set out in this Prospectus and the Application Forms.

The Offering comprises the Public Offer of initially 11,000,000 H Shares and the Placing of initially 99,000,000 H Shares, both at the Offer Price (subject, in each case, to reallocation on the basis described in the section headed “Structure of the Offering” in this Prospectus). The Offering (subject to the Placing Underwriting Agreement being entered into and both the Public Offer Underwriting Agreement and the Placing Underwriting Agreement becoming unconditional in accordance with their terms and not being terminated) is fully underwritten by the Underwriters under the terms of the Public Offer Underwriting Agreement and, if entered into, the Placing Underwriting Agreement, on condition that the Company (for itself and, if the Placing Underwriting Agreement is entered into, the Selling Shareholders) and CITIC Capital (on behalf of the Public Offer Underwriters and, if the Placing Underwriting Agreement is entered into, the Placing Underwriters) have agreed on the Offer Price.

The Company and the Selling Shareholders (pursuant to the various approval documents issued by the SASAC and the NSSF Council, and acting through the Company) intend to grant (subject to the entering into of the Placing Underwriting Agreement) to the Placing Underwriters under the Placing Underwriting Agreement, exercisable by CITIC Capital at any time within 30 days from the date of this Prospectus, the Over-allotment Option to require the Company to issue up to 15,000,000 additional H Shares and the Selling Shareholders (pursuant to the various approval documents issued by the SASAC and the NSSF Council, and acting through the Company) to convert up to 1,500,000 State-owned Domestic Shares into H Shares and transfer and sell such H Shares thereunder, to cover over-allocations in the Placing, if any.

Depending on the demand for the H Shares in the Offering, CITIC Capital (on behalf of the Placing Underwriters) may exercise the Over-allotment Option in the Placing to cover over-allocations, if any, before the announcement of the results of applications under the Public Offer, in which case, the exercise of the Over-allotment Option and the number of H Shares issued pursuant thereto will be announced in (or on or about) the announcement of the results of applications under the Public Offer before the Listing Date. However, notwithstanding the grant of the Over-allotment Option (if and assuming that the Placing Underwriting Agreement is entered into), there is no obligation on CITIC Capital or any person acting for it to conduct any stabilizing activity, which if commenced, will be done at the absolute discretion of CITIC Capital and may be discontinued at any time.

The listing of the H Shares on the Stock Exchange is sponsored by CITIC Capital. The Placing is managed by CITIC Capital and CLSA as the Joint Global Coordinators and Joint Lead Managers. The Public Offer Underwriting Agreement relating to the Offering was entered into on 25 February, 2004. For further information about the Underwriters and the underwriting arrangements, please see the section headed “Underwriting” in this Prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by CITIC Capital (on behalf of the Public Offer Underwriters and, if the Placing Underwriting Agreement is entered into, the Placing Underwriters) and the Company (for itself and, if the Placing Underwriting Agreement is entered into, the Selling Shareholders) at or before 5:00 p.m. on 3 March, 2004 (Hong Kong time), or such later date or time as may be agreed between CITIC Capital and the Company but in any event no later than 5:00 p.m. on 4 March, 2004.

INFORMATION ABOUT THIS PROSPECTUS AND THE OFFERING

If CITIC Capital (on behalf of the Public Offer Underwriters and, if the Placing Underwriting Agreement is entered into, the Placing Underwriters) and the Company (for itself and, if the Placing Underwriting Agreement is entered into, the Selling Shareholders) are unable to reach an agreement on the Offer Price by 5:00 p.m. on 3 March, 2004, or such later date or time as may be agreed between CITIC Capital (on behalf of the Public Offer Underwriters and, if the Placing Underwriting Agreement is entered into, the Placing Underwriters) and the Company (for itself and, if the Placing Underwriting Agreement is entered into, the Selling Shareholders) but in any event no later than 5:00 p.m. on 4 March, 2004, the Offering will not proceed and will lapse.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard, and if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Offering and subject to the entering into of the Placing Underwriting Agreement, CITIC Capital, as stabilizing manager, or any person acting for it, on behalf of the Placing Underwriters, may over-allocate or effect transactions with a view to supporting the market price of the H Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the issue date. Any market purchases, if any, of H Shares will be effected in compliance with all applicable laws and regulatory requirements. However there is no obligation on CITIC Capital (or any person acting for it) to conduct any such stabilizing activity, which, if commenced, will be done at the absolute discretion of CITIC Capital and may be discontinued at any time. The number of H Shares that may be over-allocated will not exceed the number of H Shares that may be issued under the Over-allotment Option, being 16,500,000 H Shares and representing 15% of the H Shares initially available under the Offering.

Stabilizing action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules includes (i) over-allocation for the purpose of preventing or minimising any reduction in the market price; (ii) selling or agreeing to sell H Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price; (iii) subscribing or purchasing, or agreeing to subscribe or purchase, H shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, H Shares for the sole purpose of preventing or minimising any reduction in the market price; (v) selling or agreeing to sell H Shares to liquidate a long position held as a result of the purchases under (iv); and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

As a result of effecting transactions to stabilize or maintain the market price of the H Shares, CITIC Capital, or any person acting for it, may maintain a long position in the H Shares. The size of the long position, and the period for which CITIC Capital, or any person acting for it, will maintain the long position is at the discretion of CITIC Capital and is uncertain. In the event that CITIC Capital liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the H Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE OFFERING

Stabilizing action by CITIC Capital, or any person acting for it, cannot be taken to support the price of the H Shares for longer than the stabilizing period, which begins on the day on which trading of the H Shares commences on the Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Public Offer. The aforesaid stabilizing period is expected to end on 1 April, 2004, and after that date no stabilization action may be taken and the demand for the H Shares, and their market price, may fall after the end of the stabilizing period.

Any stabilizing action taken by CITIC Capital, or any person acting for it, may not necessarily result in the market price of the H Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for, or transactions effected in the course of the stabilizing action, if any, in respect of, the H Shares by CITIC Capital, or any person acting for it, may be made at a price at or below the Offer Price and therefore stabilizing bids may be made or transactions effected at or below the price paid for the H Shares by subscribers or purchasers.

RESTRICTIONS ON OFFER AND SALE OF THE H SHARES

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this Prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this Prospectus may not be used for the purposes of, and does not constitute, directly or indirectly, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The Offer Shares are offered for subscription solely on the basis of the information contained and representations made in this Prospectus. No person is authorised in connection with the Offering to give any information, or to make any representation, not contained in this Prospectus, and any information or representation not contained in this Prospectus must not be relied upon as having been authorised by the Company, the Underwriters, any of their respective directors or any other persons or parties involved in the Offering.

United States

The Offer Shares have not been and will not be registered under the US Securities Act of 1933 (the “Securities Act”), and may not be offered or sold in the United States except pursuant to an effective registration statement or in accordance with an applicable exemption from the registration requirements of the Securities Act.

The Company will not recognise any resale or other transfer, or attempted resale or other transfer, of the Offer Shares made other than in compliance with the above-stated restrictions.

Until 40 days after the later of the commencement and the closing date of the Offering, offers, sales or transfers of the Shares within the United States by a dealer, including a dealer that is not participating in the offering, may violate the registration requirement of the Securities Act if such offer, sale or transfer is made otherwise than in accordance with Rule 144A or another exemption from registration under the Securities Act. As used in this paragraph, the term “United States” has the meaning given to it by Regulation S under the Securities Act.

INFORMATION ABOUT THIS PROSPECTUS AND THE OFFERING

United Kingdom

This Prospectus has not been approved by an authorised person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. The Offer Shares may not be offered or sold in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended). In addition, this Prospectus is distributed only to and is directed at (a) persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the “Order”) or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(1) of the Order (all such persons together being referred to as “relevant persons”). The Offer Shares are available only to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents.

Singapore

This Prospectus has not been and will not be lodged as a Prospectus with the Monetary Authority of Singapore and the Offer Shares will be offered in Singapore pursuant to exemptions invoked under Subdivision 4, Division 1, of Part XIII, particularly section 274 and section 275, of the Securities and Futures Act (Cap 289, 2002 Rev. Edn.) of Singapore (the “SFA”). Accordingly, this Prospectus and any other offering document or materials in connection with the offer of the Offer Shares may not be issued, circulated or distributed in Singapore nor may any of the Offer Shares be offered for subscription or purchased or sold, directly or indirectly, nor may an invitation or offer to subscribe for or purchase any Offer Shares be made, directly or indirectly, to the public or any member of the public in Singapore other than (a) pursuant to, and in accordance with the conditions of, exemptions invoked under Subdivision 4, Division 1, of Part XIII, particularly section 274 and section 275, of the SFA and to persons to whom the Offer Shares may be offered or sold under such exemption; or (b) otherwise pursuant to, and in accordance with any other conditions of any other provision of the SFA.

PRC

This Prospectus may not be circulated or distributed in the PRC and the Offer Shares may not be offered or sold directly or indirectly to any resident of the PRC, or offered or sold to any person for re-offering or re-sale directly or indirectly to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

INFORMATION ABOUT THIS PROSPECTUS AND THE OFFERING

Japan

The Offer Shares have not been and will not be registered under the Securities and Exchange Law of Japan (the “SEL”). The Offer Shares which are being offered hereby may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to any exemption available from the registration requirements of the SEL and in compliance with any other applicable requirements of Japanese law. Such other applicable requirements may include (i) the reporting or other regulations under the Foreign Exchange and Foreign Trade Law of Japan, (ii) restrictions on transferability under the SEL, (iii) restrictions under the Foreign Securities Firms Law of Japan, and (iv) regulations of the Japan Securities Dealers Association. As used in this paragraph, a resident of Japan means any individual whose address and/or domicile is located in Japan and any business offices located in Japan, including any corporation or other entity established under the laws of Japan (or other jurisdictions) having its branch, representative office or other kinds of offices located in Japan.

France

This Prospectus is not being distributed in the context of a public offering in France (*appel public à l'épargne*) within the meaning of Regulation no. 98–08 of the *Commission des Opérations de Bourse* (“COB”), and has thus not been submitted to the *Autorité des Marché Financiers* (“AMF”) for prior approval and clearance procedure.

The Offer Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, to the public in the Republic of France, and has not distributed or caused to be distributed, and will not distribute or cause to be distributed, to the public in the Republic of France, this Prospectus or any other offering materials relating to the Offer Shares, and that such offers, sales and distributions have been and shall only be made in the Republic of France to (i) qualified investors (*investisseurs qualifiés*) and/or (ii) a restricted circle of investors (*cercle restreint d'investisseurs*), all as defined in and in accordance with Article L.411–2 of the French Monetary and Financial Code and Decree no. 98–880 dated 1 October, 1998.

Investors in the Republic of France may only participate in the Offering for their own account in accordance with the conditions set out in Decree no. 98–880 dated 1 October, 1998. The Offer Shares may only be issued, directly or indirectly, to the public in the Republic of France in accordance with Articles L.411–1, L.411–2 and L.412–1 of the French Monetary and Financial Code. Investors belonging to a restricted circle of investors must provide certification as to their personal relationship, of a professional or family nature, with a member of the management of the Company.

This Prospectus is not to be further distributed or reproduced (in whole or in part) by the addressees, and has been distributed on the undertaking that addressees would invest for their own account and undertake not to transfer, directly or indirectly, the shares to the public in France, other than in compliance with applicable laws and regulations.

INFORMATION ABOUT THIS PROSPECTUS AND THE OFFERING

Germany

This Prospectus is not a Securities Sales Prospectus (*Verkaufsprospekt*) within the meaning of the German Securities Sales Prospectus Act (*Verkaufsprospektgesetz*), as amended (*the “Act”*). No Securities Sales Prospectus has been filed with or approved by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) in relation to the Offer Shares. Therefore, the Offer Shares are not registered or authorised for public distribution under the Act and, accordingly, may not be, and are not being, offered or advertised publicly or by public promotion. The Offer Shares may only be acquired in accordance with any of the exemptions provided under the Act and have not been offered or sold and will not be offered or sold and copies of this Prospectus or any document relating to the Offer Shares may not be distributed, directly or indirectly, in Germany except to persons falling within the scope of such exemptions under section 2 numbers 1, 2 or 3 of the Act, such as persons who purchase or sell the Offer Shares for their own account or for the account of others in the context of their trade, profession or occupation.

Italy

The offering of the Offer Shares has not been registered with the *Commissione Nazionale per le Società e la Borsa* (“CONSOB”), in accordance with Italian securities legislation. Accordingly, the Offer Shares may not be offered, sold or delivered, and copies of this Prospectus or any other document relating to the Offer Shares may not be distributed in Italy except to Professional Investors, as defined in Art. 31.2 of CONSOB Regulation no. 11522 of 1 July, 1998, as amended, pursuant to Art. 30.2 and Art. 100 of Legislative Decree no. 58 of 24 February, 1998 (the “Finance Law”) or in any other circumstance where an express exemption to comply with the solicitation restrictions provided by the Finance Law or CONSOB Regulation no. 11971 of 14 May, 1999, as amended (the “Issuers Regulation”) applies, including those provided for under Art. 100 of the Finance Law and Art. 33 of the Issuers Regulation, and provided, however, that any such offer, sale, or delivery of the Offer Shares or distribution of copies of this Prospectus or any other document relating to the Offer Shares in Italy must (i) be made in accordance with all applicable Italian laws and regulations, (ii) be made in compliance with Article 129 of Legislative Decree no. 385 of 1 September, 1993, as amended (the “Banking Law Consolidated Act”) and the implementing guidelines of the Bank of Italy (*Istruzioni di Vigilanza per le banche*) pursuant to which the issue, trading or placement of securities in the Republic of Italy is subject to prior notification to the Bank of Italy, unless an exemption applies depending, *inter alia*, on the amount of the issue and the characteristics of the securities, (iii) be conducted in accordance with any relevant limitations or procedural requirements the Bank of Italy or CONSOB may impose upon the offer or sale of the securities, and (iv) be made only by (a) banks, investment firms or financial companies enrolled in the special register provided for in Article 107 of the Banking Law Consolidated Act, to the extent duly authorised to engage in the placement and/or underwriting of financial instruments in Italy in accordance with the Financial Laws Consolidated Act and the relevant implementing regulations; or by (b) foreign banks or financial institutions (the controlling shareholding of which is owned by one or more banks located in the same EU Member State) authorised to place and distribute securities in the Republic of Italy pursuant to Articles 15, 16 and 18 of the Banking Law Consolidated Act, in each case acting in compliance with every applicable law and regulation.

INFORMATION ABOUT THIS PROSPECTUS AND THE OFFERING

Denmark

This Prospectus has not been filed with or approved by the Danish Securities Council or any other regulatory authority in the Kingdom of Denmark. Accordingly, the Offer Shares have not been offered or sold and may not be offered, sold or delivered directly or indirectly in Denmark, unless in compliance with Chapter 12 of the Danish Act on Trading in Securities and the Danish Executive Order No. 166 of 13 March, 2003 on the First Public Offer of Certain Securities issued pursuant hereto as amended from time to time.

Norway

This Prospectus has not been registered with the Norwegian Register of Business Enterprises under Chapter 5 of the Norwegian Securities Trading Act 1997. Accordingly, the Offer Shares have not been offered or sold, and will not be offered or sold, to any persons in Norway in any way that would constitute an offer to the public other than to persons who invest in securities as part of their professional activity and who are registered with the Oslo Stock Exchange in this capacity, or otherwise only in circumstances where an exemption from the duty to publish a prospectus under the Norwegian Securities Trading Act 1997 shall be applicable.

Sweden

Since any Swedish investor is required to pay or receive at least SEK300,000 in aggregate for the shares offered or sold, this Prospectus has not been prepared in accordance with the prospectus requirements provided for in the Swedish Financial Instruments Trading Act (*Lagen (1991:980) om handel med finansiella instrument*) nor any other Swedish enactment and neither the Swedish Financial Supervisory Authority nor any other Swedish regulatory body has examined, approved or registered this Prospectus.

Switzerland

The Offer Shares have not been offered or sold, and will not be offered or sold, to any investors in Switzerland other than on a non-public basis. This Prospectus does not constitute a prospectus within the meaning of Article 652a and Art. 1156 of the Swiss Code of Obligations (*Schweizerisches Obligationenrecht*), and neither the Offering nor the Offer Shares has been or will be approved by any Swiss regulatory authority.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares (including any H Shares which may fall to be issued by the Company and sold by the Selling Shareholders under the Over-allotment Option).

Save as disclosed herein, no part of the share or loan capital of the Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

INFORMATION ABOUT THIS PROSPECTUS AND THE OFFERING

HONG KONG H SHARE REGISTER AND STAMP DUTY

All H Shares issued and sold pursuant to applications made in the Public Offer and the Placing will be registered on the Company's H Share register of members to be maintained in Hong Kong. The Company's principal register of members will be maintained by the Company at its legal address in the PRC.

Dealings in H Shares registered in the H Share register of the Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by the Company, dividends payable in Hong Kong dollars in respect of H Shares will be paid to the shareholders listed on the Hong Kong H Share register of the Company, by ordinary post, at the shareholders' risk, to the registered address of each shareholder.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the H Shares on the Stock Exchange and the Company's compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Stock Exchange or any other date as HKSCC chooses. Settlement of transaction between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the H Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding and dealing in the H Shares. None of the Company, the Sponsor, the Public Offer Underwriters and, if the Placing Underwriting Agreement is entered into, the Placing Underwriters, any of their respective directors or any other person or party involved in the Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of or dealing in the H Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE OFFERING

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

The Company has instructed Computershare Hong Kong Investor Services Limited (“Computershare”), its Hong Kong H Share registrar, and Computershare has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular acquirer unless and until such acquirer delivers a signed form to Computershare in respect of those H Shares bearing statements to the effect that such acquirer:

- (i) agrees with the Company and each shareholder of the Company, and the Company agrees with such registered holder(s) and each shareholder of the Company, to observe and comply with the Company Law, the Special Regulations, and the Articles of Association;
- (ii) agrees with the Company, and each shareholder, director, supervisor, manager and officer of the Company, and the Company acting for itself and for each director, supervisor, manager and officer of the Company agrees with each shareholder of the Company to refer to arbitration in accordance with the Articles of Association, all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive;
- (iii) confirm(s) that he (they) understands entirely that the registered share capital of the Company comprises Domestic Shares, unlisted Foreign Shares (which, prior to their conversion (if any) into H Shares, are not H Shares) and H Shares and that holders of unlisted Foreign Shares in the Company shall have the same rights as holders of Domestic Shares save as to certain rights which only the holders of unlisted Foreign Shares are entitled;
- (iv) agrees with the Company and each shareholder of the Company that the H Shares in the Company are freely transferable by the registered holders thereof; and
- (v) authorises the Company to enter into a contract on his behalf with each director, supervisor and officer of the Company whereby such directors, supervisors and officers undertake to observe and comply with their obligations to the shareholders of the Company as stipulated in the Articles of Association.

Person(s) or entity/entities applying for or purchasing H Shares under the Offering is/are deemed, by his/its/their making an application for or purchase such H Shares, to have represented that he/it/they has/have represented to the Company and Computershare in terms as set out above, and that he/it/they is/are not (an) associate(s) (as such term defined in the Listing Rules) of any of the directors or supervisors, chief executive or an existing shareholder of the Company or a nominee of any of the foregoing.

INFORMATION ABOUT THIS PROSPECTUS AND THE OFFERING

PROCEDURE FOR APPLICATION FOR PUBLIC OFFER SHARES

The procedure for applying for Public Offer Shares is set out in the section headed “How to apply for Public Offer Shares” in this Prospectus and on the relevant Applications Forms.

STRUCTURE OF THE OFFERING

Details of the structure of the Offering, including its conditions, are set out in the section headed “Structure of the Offering” in this Prospectus.

EXCHANGE RATE CONVERSION

Except as otherwise specified, this Prospectus contains translations of Renminbi amounts into Hong Kong dollars at the rate of HK\$1.00 = RMB1.06, being the PBOC Rate prevailing on 31 December, 2003, for certain financial information of the three years ended 31 December, 2003 solely for reference. Furthermore, unless otherwise specified in this Prospectus, certain amounts originally stated or denominated in Euro have been translated, for illustration purpose only, into Hong Kong dollars at the rate of Euro 1.00 = HK\$9.78. No representation is made that the Renminbi or Euro amounts set out in this Prospectus have been, could have been, could be, may be or will be converted into Hong Kong dollars, Euro or RMB (as the case may be), as the case may be, at such rates or any other rates. Risks associated with the restrictions on foreign exchange conversions and the fluctuations of Renminbi exchange rate are set out in the section headed “Risks Factors – Risks relating to the PRC – Changes in foreign exchange regulations”.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE OFFERING

DIRECTORS

Name	Address	Nationality
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Executive Directors

Tan Xuguang	3-3-3-401 Minsheng Dong Street Weifang Shandong Province The PRC	Chinese
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Xu Xinyu	3-3-3 Minsheng Dong Street Weifang Shandong Province The PRC	Chinese
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Sun Shaojun	3-3-3-251 Minsheng Dong Street Weifang Shandong Province The PRC	Chinese
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Zhang Quan	2-2-9-503 Minsheng Dong Street Weifang Shandong Province The PRC	Chinese
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Non-executive Directors

Yeung Sai Hong	Unit B3, 1st Floor Wisdom Court 5 Hatton Road Hong Kong	Chinese
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Liu Zheng	3-3-3-401 Fushou East Street Weifang Shandong Province The PRC	Chinese
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Yao Yu	8/F Investment Building Futian District Shenzhen The PRC	Chinese
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DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE OFFERING

Li San Yim	17C, 379-381 King's Road North Point Hong Kong	Chinese
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Tong Jingen	9-4-501, 8 Tianzhuang East Street Tianqiao District Jinan Shandong Province The PRC	Chinese
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Zhang Fusheng	3-1-533 Minsheng Dong Street Weifang Shandong Province The PRC	Chinese
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Julius G. Kiss	Haunspergstr. 26 5020 Salzburg Austria	German
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Feng Gang	37 Qianfoshan East Road Jinan Shandong Province The PRC	Chinese
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Independent non-executive Directors

Zhang Xiaoyu	Room 904, Block 1, Second District Sanlihe Xicheng District Beijing The PRC	Chinese
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Koo Fook Sun, Louis	Flat A, 20th Floor Block 2, Grand Garden 61 South Bay Road Hong Kong	British
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DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE OFFERING

SUPERVISORS

Name	Address	Nationality
Sun Chengping	2-5-322 Minsheng Dong Street Weifang Shandong Province The PRC	Chinese
Wang Yong	7-3 High Level Minsheng Dong Street Weifang Shandong Province The PRC	Chinese
Jiang Jianfang	91-2-6 Heping Road Liuzhou Guangxi Zhuang Autonomous Region The PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE OFFERING

PARTIES INVOLVED

Sponsor and Bookrunner

CITIC Capital Markets Limited
26/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Public Offer Underwriters

Joint Global Coordinators and Joint Lead Managers

CITIC Capital Markets Limited
26/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

CLSA Limited
18/F, One Pacific Place
88 Queensway
Hong Kong

Co-Lead Managers

DBS Asia Capital Limited
16/F, Man Yee Building
68 Des Voeux Road Central
Hong Kong

First Shanghai Securities Limited
19/F, Wing On House
71 Des Voeux Road Central
Hong Kong

Co-Managers

Guotai Junan Securities (Hong Kong) Limited
27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Core Pacific-Yamaichi International (H.K.) Limited
36/F, COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE OFFERING

Asian Capital (Corporate Finance) Limited
Suite 1006
Bank of America Tower
12 Harcourt Road
Central, Hong Kong

Tai Fook Securities Company Limited
25/F, New World Tower
16–18 Queen’s Road Central
Hong Kong

Partners Capital International Limited
Room 1305, 13/F
9 Queen’s Road Central
Hong Kong

Placing Underwriters*

*Joint Global Coordinators
and Joint Lead Managers*

CITIC Capital Markets Limited
26/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

CLSA Limited
18/F, One Pacific Place
88 Queensway
Hong Kong

Co-Lead Managers

DBS Asia Capital Limited
16/F, Man Yee Building
68 Des Voeux Road Central
Hong Kong

Goldbond Capital (Asia) Limited
39/F, Tower 1
Lippo Centre
89 Queensway
Hong Kong

CM-CCS Securities Limited
48/F, One Exchange Square
8 Connaught Road
Central
Hong Kong

* Assuming that the Placing Underwriting Agreement is entered into

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE OFFERING

Co-Managers

First Shanghai Securities Limited
19/F, Wing On House
71 Des Voeux Road Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

VC CEF Capital Limited
38/F, The Centrium
60 Wyndham Street
Central
Hong Kong

**Legal advisers to the
Company**

as to Hong Kong Law:
Richards Butler
20/F, Alexandra House
16-20 Chater Road
Central
Hong Kong

as to PRC Law:
Zhong Lun Law Firm
Room 12, 1/F, China Merchants Centre
118 Jian Guo Road
Chao Yang District
Beijing
The PRC

**Legal advisers to
the Sponsor and
Underwriters**

X.J. Wang & Co.
19/F, 8 Queen's Road Central
Hong Kong

**Auditors and reporting
accountants**

Deloitte Touche Tohmatsu
26/F, 111 Connaught Road
Central
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE OFFERING

Property valuer

Vigers Appraisal & Consulting Limited
10/F, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

Receiving banker

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

CORPORATE INFORMATION

Registered address	26 Minsheng East Street Weifang Shandong Province The PRC
Place of business in Hong Kong	Unit 2409 Wing On Centre 111 Connaught Road Central Hong Kong
Company secretary	Zhang Yuanfu (<i>FCCA, AHKSA</i>)
Authorised representatives	Xu Xinyu Zhang Yuanfu
Audit committee	Zhang Xiaoyu Koo Fook Sun, Louis
Hong Kong share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17/F, Hopewell Centre 183 Queen’s Road East Hong Kong
Principal bankers	Industrial and Commercial Bank of China Dongguan Branch Weifang Shandong Province The PRC Bank of China Weifang Branch Weifang Shandong Province The PRC

History and development*

Weichai Factory was established in 1953, and was among the first diesel engine manufacturers in the PRC. Weichai Factory is wholly owned by CHDTGL, which is a State-owned enterprise.

From 1950's to early 1980's, Weichai Factory developed and manufactured various medium speed diesel engines with an output of 51 kW to 99 kW.

In 1984, State Development and Planning Commission and 中國國家經濟委員會 (State Economic Planning Commission) specified Weichai Factory as one of the designated manufacturers for the development and manufacture of Steyr WD615 diesel engines. In the same year, the State Economic Planning Commission issued the《關於同意濰坊柴油機廠變更隸屬關係的復函》 (“Consent in Relation to the Change of Administration of Weichai Factory”), which specified Weichai Factory as one of the designated manufacturers of diesel engines for heavy-duty vehicles.

In October 1989, the Weichai Production Line was tested and accepted by the relevant governmental bodies. Production of WD615 Engines for use in heavy-duty vehicles also commenced in the same year.

In 1990, 1992 and 1994, Weichai Factory successfully developed and launched various variants of WD615 Engines for use in power generators, construction machines and vessels, respectively.

In 1995, Weichai Factory entered into contract to import the WD618 technology from Steyr. In 1996, Weichai Factory received ISO9001 accreditation.

In 1999, Weichai Factory acquired Chongqing Weichai and thereby increased its production capacity of WD615 Engines.

In 2000, WD618 Engines for use in heavy-duty vehicles were launched in the market.

In 2001, Weichai Factory successfully developed and launched its WD615 and WD618 Euro I Engines.

In 2002, Weichai Factory further upgraded its WD615 series to Euro II Standards.

On 23 December, 2002, Weichai Factory injected its operating assets and liabilities relating to the manufacture and sale of WD615 and WD618 Engines and cash, and together with other Promoters who contributed cash, established the Company.

* *Since the Company was only established on 23 December, 2002, and the establishment of the Company was by, inter alia, Weichai Factory contributing its then operating assets and liabilities relating to the manufacture and sale of WD 615 and WD 618 Engines, the descriptions in this section therefore only relate to the history and development of those businesses of Weichai Factory which after the Reorganisation have become the current businesses of the Company.*

In March 2003, the Company's WD618 Engines successfully achieved Euro II compliant. In August 2003, the Company was approved by 山東省科學技術廳 (the Department of Science and Technology of Shandong Province) as a new high-technology enterprise.

Reorganisation

On 23 December, 2002, Weichai Factory contributed its then operating assets and liabilities relating to the manufacture and sale of WD615 and WD618 Engines and cash, and, together with other Promoters who contributed cash, established the Company. Such net operating assets were valued at RMB80,000,000 (being the equivalent of approximately HK\$75,472,000) by 北京中企華資產評估有限責任公司 (Beijing China Enterprise Appraisals Limited Liability Company) and the total amount of the cash contributions from the Promoters was RMB135,000,000 (being the equivalent of approximately HK\$127,358,000). The business licence of the Company states that the Company is a joint stock limited company with a registered capital of RMB215,000,000 and is principally engaged in the design, development, manufacture, sale and repair of diesel engines and related accessory products. The legal representative of the Company is Tan Xuguang.

After the Reorganisation, Weichai Factory has been continuing its business of manufacture and sale of 6160A series, 170Z series and R and 95 series diesel engines. In addition, Weichai Deutz, an associated company of Weichai Factory, manufactures and sells 226B series diesel engines. The 6160A series and 170Z series are medium speed diesel engines and they are mainly used in fishing boats and power generators of 200 kW (or above), which are different end-products compared to those that use the Company's WD615 Engines, namely yachts and power generators of less than 200 kW. The R and 95 series and 226B series engines are mainly used in agricultural (and related) machines.

None of the above series of diesel engines of Weichai Factory or Weichai Deutz are high-speed heavy-duty diesel engines, and they cannot be used in heavy-duty vehicles with a load capacity of 15 tonnes (or above) or heavy-duty construction machines, which are the key markets for the Company's WD615 and WD618 Engines. The Company's WD615 and WD618 Engines for such heavy-duty vehicles and construction machines accounted for approximately 90.9%, 92.5% and 93.7% of the Company's turnover for each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, respectively. Furthermore, Weichai Factory's and Weichai Deutz's production lines cannot be converted into the production lines for the manufacture of the Company's high-speed heavy-duty WD615 or WD618 Engines without a complete changeover of all major facilities with heavy additional investment. Accordingly, Weichai Factory's and Weichai Deutz's production lines cannot manufacture the Company's high-speed heavy-duty WD615 or WD618 Engines. Based on the above, the Directors believe that there is no competition between the products of the Company and Weichai Factory. In addition, Weichai Factory has undertaken that, for so long as it holds 10% (or more) of the Company's total issued shares or the H Shares are listed on the Stock Exchange, it will not, and will procure that its subsidiaries (except the Company and its subsidiaries, if any) will not, inter alia, engage or hold shares in any business which may compete directly or indirectly with the business of the Company.

HISTORY AND DEVELOPMENT, REORGANISATION AND CORPORATE STRUCTURE

The Reorganisation, comprising, inter alia, cash injections from certain strategic investors, was approved by the Shandong Provincial Government; such strategic investors (and/or their associates) include customers (such as Guangxi Liugong Machinery (a subsidiary of Guangxi Liugong, which is a Promoter) and Fujian Longgong (a Promoter)) of the Company's high-speed heavy-duty WD615 and WD618 Engines. Accordingly, the Directors believe that the investments of these strategic investors in the Company complement and further strengthen the Company's business relationships with these investors.

Diesel engine manufacturing is a very large industry with a diverse range of engines, which are characterised based on their end-products/applications. Accordingly, the difference between the Company and Weichai Factory's businesses lies within the different end-products for which their diesel engines are built (as described above), and therefore the Company's business of manufacture and sale of WD615 and WD618 Engines is distinct and is completely separate from Weichai Factory's business. Since the above-mentioned strategic investors of the Company (and/or their associates) had been customers of the Company's high-speed heavy-duty WD615 and WD618 Engines, and in view of the strong financial position and outstanding growth of the business of manufacture and sale of WD615 and WD618 Engines, such business was injected into the Company at the Reorganisation.

Amongst the four executive Directors, eight non-executive Directors and two independent non-executive Directors, only Mr. Tan Xuguang (the Chairman of the Board and an executive Director of the Company), Ms. Zhang Fusheng (a non-executive Director) and Mr. Tong Jingen (a non-executive Director) hold management positions in Weichai Factory and its associates (within the meaning of the Listing Rules; excluding the Company, but including, for the avoidance of doubt, CHDTGL). None of Mr. Xu Xinyu (an executive Director and the general manager of the Company), Mr. Sun Shaojun (an executive Director and a deputy general manager of the Company) and Mr. Zhang Quan (an executive Director and a deputy general manager of the Company), nor the other management members of the Company, hold any management positions in Weichai Factory or any of its associates as aforesaid.

After the Reorganisation, the Company and Weichai Factory (and its associates) will continue to have certain on-going connected transactions and therefore, the Company relies on the provision by Weichai Factory (and/or its associates) for the provision of such services to a certain extent. The Company has entered into agreements with Weichai Factory and/or Chongqing Weichai for the provision of certain general services, supply and/or connection (through the ducts, cables, etc. of Weichai Factory and Chongqing Weichai) of certain utilities and energy to the Company's production facilities, and processing services in respect of certain semi-finished diesel engine parts. The Company has also leased certain factory buildings and warehouses (the "Buildings") and all the equipment located in such Buildings (the "Equipment") from Weichai Factory for the manufacture of certain semi-finished diesel engine parts required by the Company. The Company has also leased certain properties from Chongqing Weichai in which the Chongqing Production Line is situated. The Company also sources certain diesel engine parts from Weichai Factory and certain of its associates. (Further details relating to the above supply and connection services are set out in the sections headed "Business – Connected transactions" in this Prospectus.)

HISTORY AND DEVELOPMENT, REORGANISATION AND CORPORATE STRUCTURE

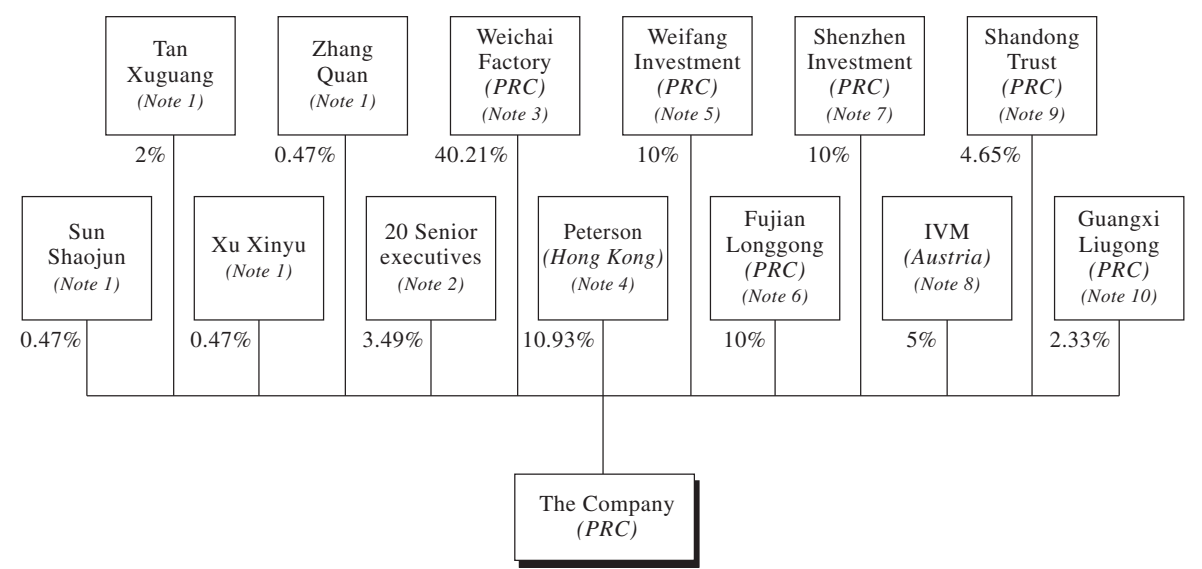
The Company has its production facilities to manufacture WD615 and WD618 Engines. It has its own production team, technical support team, purchasing and sales team, research and development team, and administration and management staff. As at the Latest Practicable Date, the Company had approximately 5,162 employees in total. A breakdown of the Company’s staff by function is as follows:

Function	Number of employees
Production	3,678
Technical support	509
Purchasing and sales	432
Research and development	141
Administration and management	402
Total	5,162

Accordingly, the Company is able to function independently of Weichai Factory and its associates.

Corporate structure

The shareholding structure of the Company after the Reorganisation, but prior to the Offering is as follows:



Note 1: Directors of the Company.

Note 2: Liu Huisheng and Tong Dehui each holds approximately 0.28% equity interest and each of Sun Xueke, Chen Songdong, Ding Yingdong, Dai Lixin, Han Lisheng, Feng Gang, Zhong Genghui, Wang Yong, Ma Yuxian, Liu Yuanqiang, Wang Changliang, Wang Xiaoying, Li Honggang, Li Jiajia, Wu Hongwei, Yu Rushui, Wang Tongtai and Wang Fengyi holds approximately 0.16% equity interest in the capital of the Company. The aforesaid individuals hold 7,500,000 Shares (being Domestic Shares) in aggregate.

HISTORY AND DEVELOPMENT, REORGANISATION AND CORPORATE STRUCTURE

- Note 3:* Weichai Factory, a legal person established in the PRC and is wholly owned by CHDTGL, which is a State-owned enterprise. Weichai Factory holds 86,450,000 Shares and they are considered State-owned Domestic Shares.
- Note 4:* Peterson, a company incorporated in Hong Kong and is directly and indirectly wholly owned by Yeung Sai Hong, a non-executive Director. It is principally engaged in securities and property investment activities. Peterson holds 23,500,000 Shares, which are Foreign Shares.
- Note 5:* Weifang Investment, a legal person established in the PRC and is principally engaged in investment activities. Weifang Investment is a State-owned enterprise. Weifang Investment holds 21,500,000 Shares and they are considered State-owned Domestic Shares.
- Note 6:* Fujian Longgong, a company incorporated in the PRC and is principally engaged in the manufacture and sale of, among others, wheel-loaders. Fujian Longgong is owned by Li San Yim as to approximately 69.16% and Ni Yinying as to approximately 30.84%, respectively. Li San Yim is a non-executive Director and Ni Yinying is his wife. Fujian Longgong holds 21,500,000 Shares, which are Domestic Shares.
- Note 7:* Shenzhen Investment, a company incorporated in the PRC and is principally engaged in direct investment and provision of new high-technology information consultancy services. Shenzhen Investment holds 21,500,000 Shares, which are treated by the SASAC as State-owned Domestic Shares. Shenzhen Investment is owned by 廣東電力發展股份有限公司 (Guangdong Electricity Development Company Limited), 廣深鐵路股份有限公司 (Guangshen Railway Company Limited), 隆鑫集團有限公司 (Longxin Group Company Limited), 上海大眾科技創業 (集團) 股份有限公司 (Shanghai Dazhong Technology Enterprise (Group) Company Limited), 深圳能源投資股份有限公司 (Shenzhen Energy Investment Company Limited), 深圳市福田投資發展公司 (Shenzhen Futian Investment Development Company), 新通產實業開發 (深圳) 有限公司 (Xintongchan Industry Development (Shenzhen) Company Limited), 深圳市公共交通 (集團) 有限公司 (Shenzhen Public Transport (Group) Company Limited), 深圳市鹽田港集團有限公司 (Shenzhen Yantian Harbour Group Company Limited), 深圳市億鑫投資有限公司 (Shenzhen Yixin Investment Company Limited), 深圳市中興通訊股份有限公司 (Shenzhen Zhongxing Communications Company Limited), 深圳市機場股份有限公司 (Shenzhen Airport Company Limited) and 深圳市投資管理公司 (Shenzhen Investment Management Company Limited) as to 3.13%, 1.88%, 3.13%, 20%, 2.72%, 3.27%, 3.13%, 2.59%, 3.13%, 3.00%, 0.31%, 20% and 33.73%, respectively (each being an approximated percentage).
- Note 8:* IVM, a company established in Austria and is principally engaged in the design and development and provision of technical consultancy service. IVM is indirectly owned by Julius G. Kiss, a non-executive Director. IVM holds 10,750,000 Shares, which are Foreign Shares.
- Note 9:* Shandong Trust, a company established in the PRC and is principally engaged in the custody and operation of business assets and the provision of advisory services on acquisitions and mergers, bankruptcy, leasing and equity investment. Shandong Trust holds 10,000,000 Shares, which are Domestic Shares. Shandong Trust is owned by 山東魯信實業集團公司 (Shandong Luxin Industry Group Company), 山東企業產權交易所 (Shandong Enterprises Interest Exchange), 山東魯信國際經濟股份有限公司 (Shandong Luxin International Economics Company Limited), 山東國際投資實業股份有限公司 (Shandong International Investment Industry Company Limited), 山東省華僑投資公司 (Shandong Huaqiao Investment Co.), 山東華銀實業有限公司 (Shandong Huayin Industry Company Limited), 淄博市經濟開發投資公司 (Zibo Economics Development Investment Company), 臨沂吉豐毛毯股份分公司 (Linyi Jifeng Blankets Company Limited), 山東壽山星業股份有限公司 (Shandong Shoushan Xingye Company Limited), 華夏證券有限公司濟南營業部 (Huaxia Securities Company Limited, Jinan Operation Department), 山東証券登記有限公司 (Shandong Securities Registration Company Limited), 山東南山實業股份有限公司 (Shandong Nanshan Industry Company Limited), 山東大通電訊有限責任公司 (Shandong Datong Telecommunications Company Limited), 山東廣和有限公司 (Shandong Guanghe Co. Ltd.) and 臨沂市經濟開發投資諮詢公司 (Linyi City Economic Development Investment Consultant Company) as to approximately 5.88% each, and by certain staff of Shandong Trust as to approximately 11.82%.

HISTORY AND DEVELOPMENT, REORGANISATION AND CORPORATE STRUCTURE

Note 10: Guangxi Liugong is a company established in the PRC. Guangxi Liugong and its subsidiary, namely Guangxi Liugong Machinery, a company listed on the Shenzhen Stock Exchange, are principally engaged in the manufacture and sale of construction machines. Guangxi Liugong is a State-owned enterprise. Guangxi Liugong holds 5,000,000 Shares and they are considered State-owned Domestic Shares.

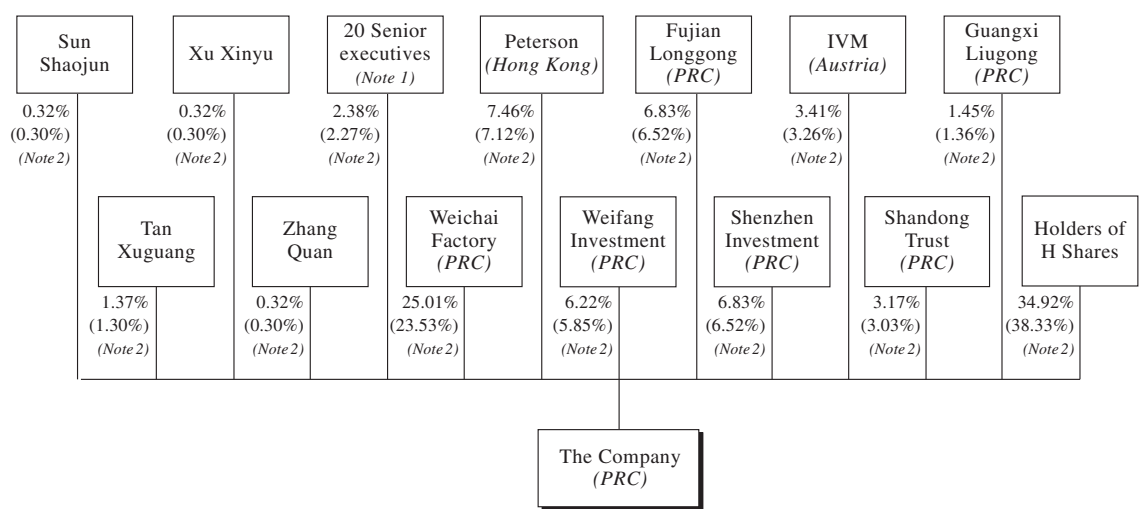
Note 11: All the percentages in the above chart have been subject to rounding. The English translations of the Chinese names referred to in the above notes are for information only. The relevant entities may or may not have official English names, and therefore no reliance shall be made on such English translations.

Conversion to an overseas public subscription company

Pursuant to the document issued by SASAC dated 13 November, 2003, approval was granted for the conversion of the Company into 境外募集公司 (overseas public subscription company).

Shareholding structure after the Offering

The chart below illustrates the shareholding structure of the Company immediately after the completion of the Offering:



Note 1: Liu Hui Sheng and Tong Dehui each holds approximately 0.19% equity interest and each of Sun Xueke, Chen Songdong, Ding Yingdong, Dai Lixin, Han Lisheng, Feng Gang, Zhong Genghui, Wang Yong, Ma Yuxian, Liu Yuanqiang, Wang Changliang, Wang Xiaoying, Li Honggang, Li Jiajia, Wu Hongwei, Yu Rushui, Wang Tongtai, and Wang Fengyi holds approximately 0.11% equity interest in the capital of the Company, assuming that the Over-allotment Option is not exercised.

Note 2: The percentages in brackets represent the shareholdings in the capital of the Company assuming that the Over-allotment Option is exercised in full. The percentages not in brackets have been calculated on the assumption that the Over-allotment Option is not exercised.

INDUSTRY OVERVIEW

The information in relation to the industry of the Company set out in this section and elsewhere in this Prospectus is extracted from several official and unofficial publications and the correspondences with government officials. Such information is not generated, nor independently audited by the Company or the Underwriters, and the Company and the Underwriters have made no representation as to the accuracy of such information. Reasonable care has been exercised by the Directors in reproducing such information.

History and development of diesel engine technologies

Diesel engine technologies have been developing over the past century. Over the past decades, regulations governing emission and noise from engines have become increasingly stringent. For instance, the United States imposed legal restrictions on vehicle emissions in the 1960s, and Europe introduced the Euro I Standards in 1993, the Euro II Standards in 1996 and the Euro III Standards in 2000. Along with the increasing environmental protection requirements, the technologies for diesel engines have also been greatly improved. The major improvements include the adoption of re-engineered combustion system, increase in fuel injection pressure, turbo-charging, four-valve structure, emission re-circulation and electronically controlled oil injection system, etc. These technologies have not only resulted in a higher environmental protection standard, but also substantially improved the performance of diesel engines. On the whole, the liter/power ratio of diesel engines has increased by approximately 90%, while the fuel consumption and emissions have decreased by approximately 50% and 90% respectively over the past decades.

The current status of the diesel engine industry in the PRC

China is a major engine production country in the world. During the ninth Five-year State Plans period (1995-2000), its engine production had increased by approximately 30%, from 16.2 million units in 1995 to 21 million units in 2000, which, according to 二零零二年《中國內燃機工業年鑑》(China Internal Combustion Engine Industry Yearbook 2002), represented approximately 16.8% of engine production (in terms of units) in the world.

With respect to environmental protection, China is in the stage of implementing Euro I Standards. The State plans to implement Euro II Standards as from September 2004. On the other hand, the demand for heavy-duty engines to be installed in heavy-duty vehicles and construction machines has also increased in the past few years due to the fast economic growth, improvement of road systems and heavy infrastructure investment in the PRC. The Directors believe that the development of environmental-friendly heavy-duty engines is and will be a major trend of the PRC's engine industry.

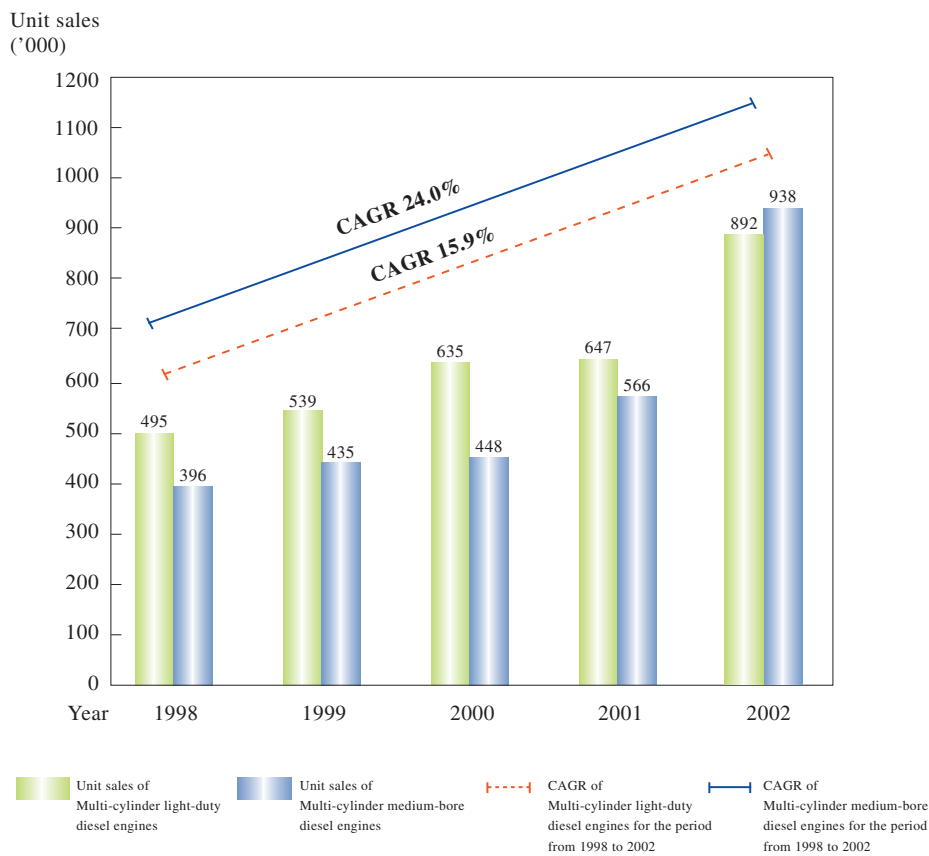
In terms of statistics, diesel engines in the PRC are divided into four categories: single-cylinder diesel engines, multi-cylinder light-duty diesel engines (bore below 100 mm), multi-cylinder medium-bore diesel engines (bore between 100 mm and 160 mm), and low and medium speed diesel engines. Single-cylinder diesel engines normally generate power of less than 13 kW and are mainly used in small agricultural vehicles and tractors etc. Multi-cylinder light-duty diesel engines normally generate power of less than 80 kW, and are mainly used in light/medium-duty trucks, agricultural

INDUSTRY OVERVIEW

vehicles and machines. Multi-cylinder medium-bore diesel engines normally generate power of 80kW–370kW, which include high-speed heavy-duty diesel engines and are mainly used in heavy-duty vehicles, construction machines and coaches. Low and medium speed diesel engines are mainly used in the locomotives and vessels, and their production is limited.

At present, there are approximately 40 major manufacturers of multi-cylinder light-duty diesel engines and multi-cylinder medium-bore diesel engines in the PRC. The following chart shows the unit sales and the corresponding CAGRs of multi-cylinder light-duty diesel engines and multi-cylinder medium-bore diesel engines in the PRC for the period from 1998 to 2002:

Comparison of unit sales of multi-cylinder light-duty diesel engines and multi-cylinder medium-bore diesel engines in the PRC for the period from 1998 to 2002



Source: 二零零二年《中國內燃機工業年鑑》(China Internal Combustion Engine Industry Yearbook 2002) and the letter from the Editorial of the China Internal Combustion Engine Industry Yearbook 2002 dated 11 September, 2003

As seen from the above, partly driven by the unit sales of high-speed heavy-duty diesel engines, the growth of multi-cylinder medium-bore diesel engines exceeded that of multi-cylinder light-duty diesel engines for the period from 1998 to 2002.

The high-speed heavy-duty diesel engine related markets in the PRC

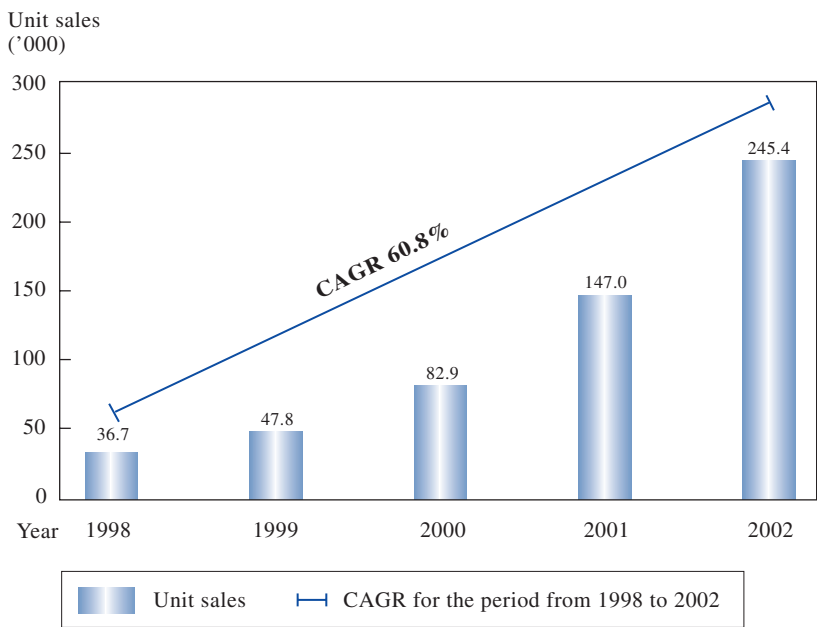
Diesel engines are mainly used as components of end-products. For example, high-speed heavy-duty diesel engines are normally installed in heavy-duty vehicles, coaches, construction machines, vessels and power generators. Thus the development of the diesel engine industry largely depends on that of market conditions of the relevant end-products.

1. The heavy-duty vehicles’ market in the PRC

The development of the road system and the strong economic growth in the PRC have to some extent stimulated the sales of vehicles in the PRC. For the period from 1998 to 2002, the CAGR of production of vehicles in the PRC was approximately 18.9%. In 2002, the PRC produced 3,250,000 vehicles, ranked as the fifth largest producer in the world. In respect of highway transportation, the sales of heavy-duty vehicles, being more economical and efficient, have outgrown those of medium-duty vehicles in recent years. The proportion of the total number of medium-duty vehicles to the total number of vehicles in the PRC has decreased from approximately 50% in 1990 to below 20% at present, at the same time, the sales of heavy-duty vehicles have been rising rapidly, in 2001, production of heavy-duty vehicles has already surpassed that of medium-duty vehicles.

The unit sales of heavy-duty vehicle with a load capacity of 15 tonnes (or above) in the PRC is comparatively concentrated in a few manufacturers. The major manufacturers today include the China Heavy Duty Truck Group, Shaanxi Zhongqi, Chongqing Hongyan and Beijing Futian, etc.

The following chart illustrates the unit sales and the corresponding CAGR of heavy-duty vehicles in the PRC for the period from 1998 to 2002



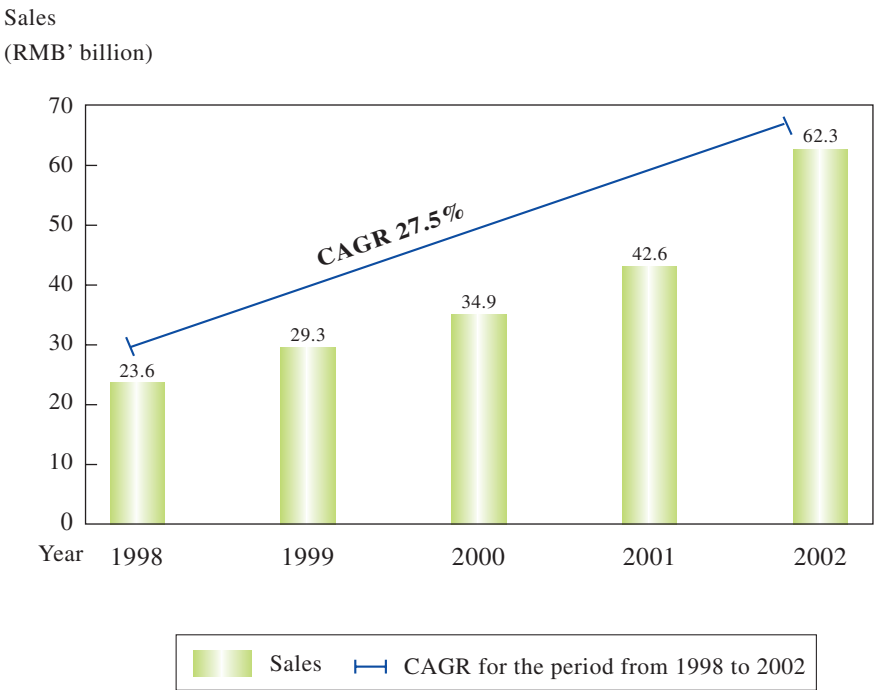
Source: 《柴油車配件月刊》二零零三年第四期 (總第132期) (Diesel Vehicles Fittings Monthly 2003 4th Issue (No. 132))

2. The construction machines’ market in the PRC

Another major market for the high-speed heavy-duty diesel engines in the PRC is the construction machines industry. Currently, the State classifies construction machines into 10 types, including wheel-loaders, bulldozers etc. Most construction machines are powered by diesel engines.

In recent years, the PRC has started many major infrastructure projects, such as the Three Gorges Dam Project, the West-East Pipeline Project, the Olympic Game Project, and numerous highway projects, which have stimulated the demand for construction machines to a certain extent. The following chart shows the sales and the corresponding CAGR of the construction machine industry (excluding elevators) in the PRC for the period from 1998 to 2002:

Sales and the corresponding CAGR of construction machines (excluding elevators) in the PRC for the period from 1998 to 2002



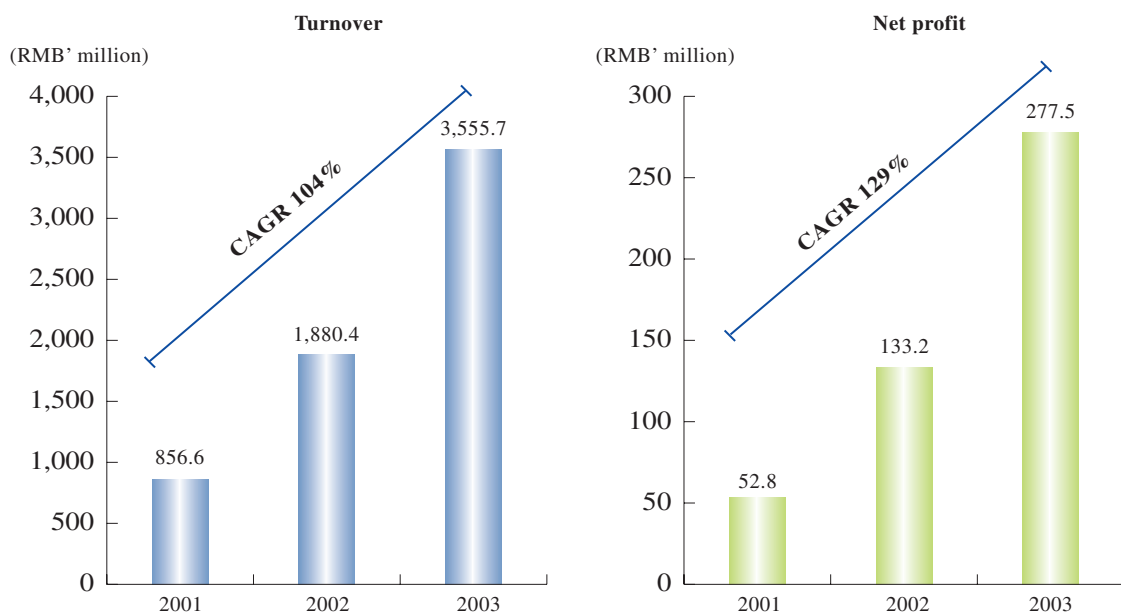
Source: 二零零三年《中國工程機械工業年鑑》(China Construction Machine Industry Yearbook 2003)

OVERVIEW

The history of the Company can be traced back to 1953 when Weichai Factory was established as a State-owned enterprise. Weichai Factory was one of the first diesel engine manufacturers in the PRC. After over half a century of development, the Company has become a major diesel engine manufacturer in the PRC specialising in the manufacture of high-speed heavy-duty diesel engines. The products of the Company are WD615 and WD618 Engines, the production of which commenced in 1989 and 2000, respectively.

WD615 Engines are water-cooled, linear, 6-cylinder, turbo-charging, high-speed diesel engines, which can generate 110-266 kW and have met the Euro II Standards. The Company manufactures four series of WD615 Engines, namely vehicle engines (for heavy-duty vehicles and coaches), construction machine engines, vessel engines and power generator engines. WD618 Engines are a new series of diesel engines developed based on the WD615 series. In addition to having all the major features of the WD615 Engines, WD618 Engines, with larger displacement, can generate 265-323 kW. WD618 Engines have also met the Euro II Standards.

The following are the turnover and net profit of the Company during the three years ended 31 December, 2003:



Notes:

- (1) The net profit figures have been adjusted to reflect notional taxation. For further information, please refer to the accountants' report set out in appendix I to this Prospectus.
- (2) CAGR is calculated based on the relevant figures as at 2001 and 2003 financial year ends.

BUSINESS

The Company is headquartered in Weifang city, Shandong province, the PRC. Substantially all of the sales of the Company are made within the PRC and the revenue from the sale of WD615 Euro I Engines constitute most of such sales.

In 2003, in terms of unit sales, approximately 50.1% of the Company's products were used in heavy-duty vehicles and approximately 47.1% were used in construction machines. These two industries experienced significant growth in recent years, with CAGRs of approximately 60.8% and 27.5%, respectively from 1998 to 2002 in terms of sales. The Directors believe that this was due to the high GDP growth rates, heavy infrastructure investment, and the development of highway system and logistics industry in the PRC in the past few years.

In the heavy-duty vehicle market, approximately 71.3%¹ of the new heavy-duty vehicles with a load capacity of 15 tonnes (or above) sold in the PRC in 2003 were installed with the Company's products. The major customers of the Company in this market include the China Heavy Duty Truck Group, Shaanxi Zhongqi, Chongqing Hongyan and Beiqi Futian.

In addition to being used in heavy-duty vehicles, the Company's products are also widely used in construction machines, which include wheel-loaders, bulldozers and road-rollers. In 2003, the Company's products had a market share of approximately 73%² of the new wheel-loaders with a load capacity of 5 tonnes (or above) sold in the PRC. The major customers of the Company in this market include Guangxi Liugong, Fujian Longgong and Shandong Lingong.

The Company has a nation-wide service network. As at the Latest Practicable Date, the Company had 37 service centres and 480 licensed service centres in the PRC.

Notes:

(1) Source: 《中國汽車報》 (China Vehicle Newspaper) dated 13 January, 2004

(2) Source: 《中國工業報》 (China Industry Newspaper) dated 9 February, 2004

PRINCIPAL STRENGTHS

The Directors consider that the Company has the following principal strengths:

1. *Being one of the largest heavy-duty diesel engine manufacturers in the PRC*

The Company has accumulated more than 50 years of experience in the diesel engine industry, in particular the development, manufacture and sale of high-speed heavy-duty diesel engines. After over half a century of development, the Company has grown into one of the largest heavy-duty diesel engine manufacturers in the PRC with a good reputation amongst its customers.

2. *Technological advantages*

The PRC Government stipulates that all new vehicles must comply with the Euro II Standards as from September 2004. The Company's WD615 and WD618 Engines met the Euro I Standards in 2001 and the Euro II Standards in 2002 and 2003, respectively, i.e. two years and one year ahead of the PRC Government's requirement, respectively. In addition, the Company's WD615 and WD618 Engines have other competitive advantages over certain similar diesel engines manufactured in the PRC, such as low fuel consumption, reliability and high torque back-up, and having been in production for over 13 years, they are mature products with proven quality, which make them amongst the most popular high-speed heavy-duty diesel engines in the PRC.

3. *Strong research and development capability*

The Company has proven track record in developing new models of diesel engines and improving its existing models. The Company has successfully upgraded its WD615 and WD618 Engines to the Euro II Standards. The Company has also established long-term relationships with certain renowned international diesel engine manufacturers and institutes, such as Steyr and AVL. The Company is currently developing its Euro III compliant diesel engines with support from AVL.

4. *Being engaged in a fast growing industry in the PRC*

The products of the Company are mainly used in heavy-duty vehicles with a load capacity of 15 tonnes (or above) and construction machines with a load capacity of 5 tonnes (or above). These two industries in the PRC have shown CAGRs of approximately 60.8% and 27.5%, respectively from 1998 to 2002 in terms of sales. With respect to the diesel engine industry, unit sales of medium-bore multi-cylinder diesel engines (which include high-speed heavy-duty diesel engines) in the PRC have shown a CAGR of approximately 24.0% over the same period.

5. *Strong sales team and service network in the PRC*

As at the Latest Practicable Date, the Company had a sales team of 289 members, and a total of 37 service centres and 480 licensed service centres, which together form an effective service network for the Company's products in the PRC.

6. *An established and renowned customer base*

The Company's major customers in the heavy-duty vehicle industry include the China Heavy Duty Truck Group*, Shaanxi Zhongqi, Chongqing Hongyan and Beiqi Futian, and its major customers in the construction machine industry include Guangxi Liugong*, Fujian Longgong* and Shandong Lingong. As most of them are leading manufacturers in their respective industries, this has further strengthened the Company's reputation and enabled the Company to leverage on their reputation to further penetrate those markets. The Company has had long-term business relationships with its major customers for periods ranging from approximately three to 14 years.

* A connected person of the Company (within the meaning of the Listing Rules)

7. *A stable and experienced management team*

The senior executives of the Company have extensive experience in the diesel engine industry, and most of them have been working for the Company for more than 15 years. In addition, certain executive and management shareholders together hold approximately 6.88% of the Shares of the Company before the Listing, which aligned their interest with the performance of the Company.

8. *Strong financial position and outstanding growth*

For the three years ended 31 December, 2003, the CAGRs of the turnover and net profit of the Company were approximately 104% and 129%*, respectively. The Company is a fast-growing heavy-duty diesel engine manufacturer in the PRC. The net asset value of the Company as at 31 December, 2003 was RMB474,500,000.

* *This represents the CAGR of the net profit of the Company after making certain notional income tax adjustments for the three years ended 31 December, 2003. For further information, please refer to the accountants' report in appendix I to this Prospectus.*

PRODUCTS OVERVIEW

The Company is principally engaged in the manufacture and sale of WD615 and WD618 Engines. In terms of the usage, they can be categorised into four series: vehicle engines (for heavy-duty vehicles and coaches), construction machine engines, vessel engines and power generator engines.

1. Product Models

WD615 Engines

The Company's WD615 Engines were developed from the technology of Steyr WD615 vehicle engines. They are water-cooled, linear, 6-cylinder, 4-stroke, direct-injection, turbo-charging high-speed diesel engines with a displacement of 9.726 litres. After 13 years of development, the Company's WD615 Engines are amongst the most advanced and popular high-speed heavy-duty diesel engines in the PRC with its standard speed ranging from 1,500 rpm to 2,600 rpm, output in the range of 110 kW to 266 kW, exhaust emission meeting the Euro II Standards, and a minimum fuel consumption at 194g/kWh. In addition to being used in vehicles, they are also used in the construction machines, vessels and power generators.

The following are some special features of the WD615 Engines:

- Economical on fuel – the minimum fuel consumption of the WD615 Engines is 194g/kWh

- Low emission – the WD615 Engines comply with the Euro II Standards
- High torque back-up – the torque back-up (the percentage between the maximum and standard torque) of the WD615 Engines reaches 32%
- Low temperature ignition – the WD615 Engines can be started at -10°C without fixing the low-temperature ignition device and at -40°C with the device
- High altitude performance – less than 5.4% power loss at 5,000 metres above sea level

With all the above specifications and features, the Company’s WD615 Engines have been proved to be very suitable for the PRC market. Being in production with continual improvements for more than 13 years since 1989, the WD615 Engines are amongst the most mature and popular high-speed heavy-duty diesel engines in the PRC.

WD618 Engines

The Company commenced the production of WD618 Engines in 2000. WD618 Engines are a new series of products developed on the basis of the WD615 series, with a larger displacement of 11.596 litres. In addition to having those special features of the WD615 as mentioned above, the WD618 Engines have a higher power output of 265-323 kW. The WD618 series has also complied with the Euro II Standards with minimum fuel consumption at 198g/kWh. The applications of the WD618 Engines are basically the same as those of the WD615 series.

2. Uses of the WD615 and WD618 Engines

Vehicle engines

Both WD615 and WD618 Engines have vehicle models, which are mainly used in heavy-duty vehicles and coaches. The technical specifications and uses of the major vehicle engines of the Company are as follows:

Model	Rated power	Rated speed	Maximum Torque	Emission Standard	Uses
WD615 68A	225 kW	2,200 rpm	1,250 Nm	Euro I	15-tonne trucks
WD615 44	235 kW	2,200 rpm	1,250 Nm	Euro II	15-tonne trucks, 11-metre coaches
WD615 46	266 kW	2,200 rpm	1,460 Nm	Euro II	15-tonne (or above) tractors, 12-metre coaches
WD618 39	282 kW	2,200 rpm	1,600 Nm	Euro II	15-tonne (or above) tractors
WD618 42	309 kW	2,200 rpm	1,750 Nm	Euro II	15-tonne (or above) tractors

Construction machine engines

These models are mainly used in construction machines, such as wheel-loaders, bulldozers and road-rollers, and are particularly adapted to high altitude and adverse working conditions. The technical specifications and uses of the major models under this category are as follows:

Model	Rated power	Rated speed	Maximum Torque	Uses
WD615 67G3-28	162 kW	2,200 rpm	843 Nm/ 1,400-1,500 rpm	5-tonne wheel-loaders
WD615 67G3-36	162 kW	2,200 rpm	843 Nm/ 1,400-1,500 rpm	5-tonne wheel-loaders
WD615 T1-3A	128 kW	1,850 rpm	764 Nm/ 1,100-1,200 rpm	160-horsepower bulldozers
WD615 61G	128 kW	2,000 rpm	750 Nm/ 1,400-1,500 rpm	18-tonne vibration rollers

Vessel engines

These models are equipped with inter-cooler, sea water/fresh water cooling unit and system monitor. They are mainly used in trawlers, cargo vessels and yachts. The technical specifications of the major models under this category are as follows:

Model	Rated power	Rated speed
WD61561C-18A	110kW	1,800 rpm
WD61568C-21	205kW	2,100 rpm
WD61567CD-1	138kW	1,500 rpm

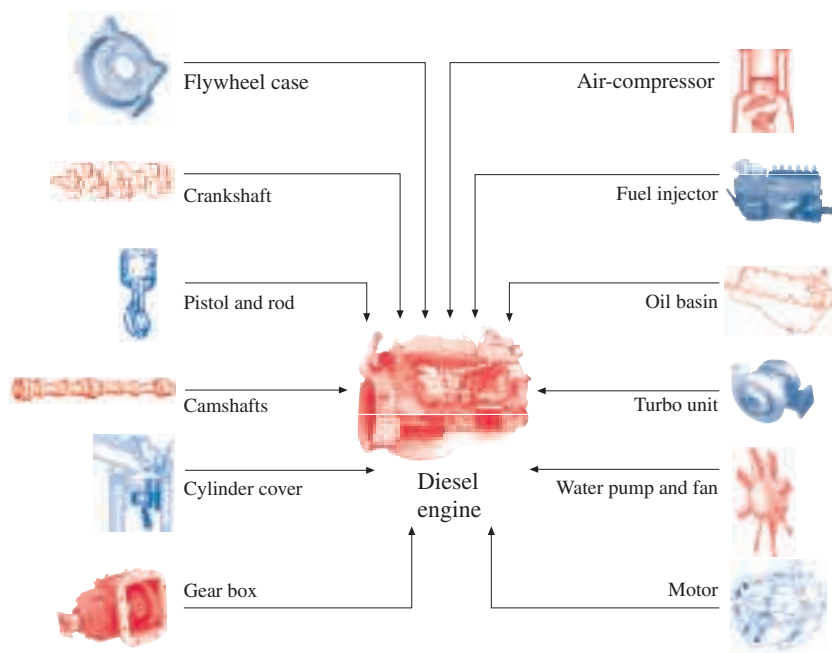
Power generator engines

These models are mainly used in power stations, or for backup power supply or high-frequency aviation power supply, etc. and can be integrated with different power generation units to operate as land-based or vessel-based power generators. The technical specifications of the major models under this category are as follows:

Model	Rated power	Rated speed
WD61561D-15	117kW	1,500 rpm
WD61564D-15	138kW	1,500 rpm
WD61568D-15	170kW	1,500 rpm

PRODUCTION PROCESS

The following chart shows the principal components of the WD615 and WD618 Engines produced by the Company:



More than 2,500 parts and components are needed for the production of the Company’s products. The major parts and components are manufactured by the Company, while the rest are Out-sourced parts. The self-produced parts and components mainly include cylinder chambers, cylinder covers, crankshafts, camshafts, piston and rods, gear boxes and flywheel cases, whereas Out-sourced parts include gears, flywheels, oil pumps and nozzles, turbo units, cylinder liners and pistons. Certain Out-sourced parts have to be processed by the Company before they are assembled into the engines. For example, unfinished crankshafts and camshafts have to undergo preliminary processing and fine processing.

The manufacture of the Company’s products involves over 8,000 processes, and the following sets out some major processes:

Casting and forging → preliminary and fine processing → thermal treatment → dynamic balancing → washing → assembly → testing → packaging

1. Casting and forging

Sand moulds are made in the casting workshop and are then placed onto the casting lines to receive molten iron for casting into unprocessed diesel engine parts. Major casting products include cylinder chambers, cylinder covers and flywheel cases. Unfinished casting parts and certain raw components such as rods and rocking pivots are forged in the forging workshop before processing.

2. *Preliminary and fine processing*

Most cast or forged parts need to be further lathed, milled, swaged, ground and polished. Certain Out-sourced parts also have to be further processed before assembly.

3. *Thermal treatment*

Thermal treatment mainly involves the adoption of heating, annealing and nitrogenisation processes to strengthen certain parts and components, such as crankshafts, rods and camshafts, so as to improve their hardness and resistance to wear and tear.

4. *Dynamic balancing*

The high-speed rotational movements of certain components in a diesel engine makes it necessary for such moving parts (such as crankshafts) to go through dynamic balancing treatment to ensure that they can display optimal dynamic balance, which is essential to stability.

5. *Washing*

The main purpose of this process is to remove any debris left on the parts during the polishing process.

6. *Assembly*

All parts and components are then sent to the assembly line for assembly. The assembly line of the Company can assemble both WD615 and WD618 Engines.

7. *Testing*

The Company has an automatic testing line, which allows automatic loading and offloading, as well as automatic testing and inspection in accordance with the preset requirements. Every diesel engine must be tested before delivery. The items to be tested include power output, speed, exhaust emission level, oil and water temperature, etc.

SUPPLY OF RAW MATERIALS AND OUT-SOURCED PARTS

The major raw materials used by the Company can be classified into three groups, namely steel, furnace materials such as cast iron, scrap steel, sand and coke, and chemicals. For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the Company's purchases of raw materials accounted for approximately 17.4%, 14.3% and 13.4% of the total purchases, respectively; and the Company's purchases of raw materials from connected persons accounted for approximately 15.6%, 12.6% and 7.0% of the total purchases, respectively.

Apart from raw materials, the Company also purchases Out-sourced parts for its production requirements. Such Out-sourced parts mainly include oil pumps, nozzles and turbo units. The Company classifies Out-sourced parts suppliers into three categories, namely A, B and C, based on their products' quality, pricing and quality of their service. According to the purchase and management policy of the Company, Class A suppliers are the top suppliers and are expected to provide approximately 60% of the total purchases of the relevant Out-sourced parts, whilst class B and class C suppliers are expected to provide approximately 30% and 10%, respectively. Supply contracts for Out-sourced parts normally have a term of one year and are renewable upon expiry. The Company reserves the right to adjust the prices during the contract term. Based on production schedule, the Company confirms the order quantities with the suppliers every month. The Directors are not aware of any disruption in production of the Company due to shortage of supply of Out-sourced parts during the Track Record Period. For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the Company's purchases of Out-sourced parts accounted for approximately 82.6%, 85.7% and 86.6% of the total purchases, respectively; and the Company's purchases of Out-sourced parts from connected persons accounted for approximately 20.0%, 26.3% and 24.9% of the total purchases, respectively.

Purchases of raw materials and Out-sourced parts from the five largest suppliers of the Company accounted for approximately 44.3%, 45.1% and 35.0% of the Company's total purchases for each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, respectively. Purchases of raw materials and Out-sourced parts from the single largest supplier of the Company accounted for approximately 12.8%, 13.6% and 9.1% of the Company's total purchases for each of the above periods, respectively. As at the Latest Practicable Date, none of the Directors, Supervisors, their respective associates or any shareholder (who to the knowledge of the Directors owned more than 5% of the issued share capital of the Company), had any interest in any of the five largest suppliers of the Company during the Track Record Period, other than 濰柴鑄造廠 (Weichai Zhu Zao Chang)⁽¹⁾, 山東濰柴進出口有限公司 (Shandong Weichai IMP. & EXP. Corp.)⁽²⁾ and Chongqing Weichai⁽³⁾. For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the Company's purchases of raw materials and Out-sourced parts from Weichai Zhu Zao Chang, Shandong Weichai IMP. & EXP. Corp, and Chongqing Weichai in aggregate accounted for approximately 28.5%, 34.2% and 22.5%, respectively of the total purchases of the Company. The Company has obtained the relevant import and export right for the purpose of importing diesel engine parts and raw materials and exporting the Company's diesel engines (if and when the Company decides necessary) in June 2003 and has started handling its own import and export requirements in November 2003 (save for as disclosed in the section headed "Business – Import and export arrangements" of this Prospectus). As such, the Company's purchases from its connected persons will decrease. The raw materials required by the Company are mainly bulk commodities. During the Track Record Period, there was no shortage in the supply of any of such raw materials.

Notes:

1. *A former wholly-owned subsidiary (which has ceased to exist and whose assets are now owned by Weichai Factory) of Weichai Factory⁽⁴⁾.*
2. *A wholly-owned subsidiary of Weichai Factory⁽⁴⁾. The Company has obtained the relevant import and export right in June 2003 and is no longer relied on the licence of Shandong Weichai IMP. & EXP. Corp. to source raw materials of Out-sourced parts starting from November 2003.*
3. *A wholly-owned subsidiary of Weichai Factory⁽⁴⁾.*
4. *Weichai Factory holds approximately 40.21% interest in the share capital of the Company before the Offering.*

BUSINESS

For the three years ended 31 December, 2003, the payments of the Company to its suppliers were made in Renminbi with credit periods of between 30 days and 90 days from date of goods received or invoices billed based on the relevant historical credit records.

UTILITIES

Currently, all the utilities used by the Company including electricity, water, compressed air, steam and gas (collectively “Utilities”), are transmitted through the facilities of, or provided by, Weichai Factory and Chongqing Weichai. For details, please refer to the section headed “Business – Connected transactions” of this Prospectus. During the Track Record Period, the Company did not experience any disruption in its operation due to serious shortage of supply of utilities.

INVENTORY

The Company has warehouses for the storage of raw materials, Out-sourced parts and finished products in the PRC.

For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the Company’s inventory amounted to approximately RMB102.5 million, RMB230.7 million and RMB279.9 million, respectively. It is the Company’s intention to maintain its inventory level at a turnover period of between 30 days to 60 days. However, occasional fluctuations in purchasing, production and shipment patterns may result in the inventory turnover period falling outside this range.

For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the inventory turnover periods were approximately 58 days, 58 days and 38 days, respectively. The shortening of the inventory turnover periods was mainly due to the improvement in inventory management of the Company resulting in timely delivery of the finished products to its customers.

Inventory as at 31 December, 2001, 31 December, 2002 and 31 December, 2003 was stated at the lower of cost and net realisable value. The management personnel reviews the level and composition of inventory regularly and will make specific provisions on any obsolete or slow-moving items, as well as items with net realisable problem. The Company did not have any obsolete stock written off and no provision was made for stock during the Track Record Period.

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QUALITY CONTROL

The Company received ISO9001:2000 Quality Assurance System Certification on 16 June, 2003. The Company's assurance system is implemented in four separate areas, namely product design, procurement of raw materials and Out-sourced parts, production process and testing of finished products.

Random sampling is conducted on every batch of raw materials purchased. As for Out-sourced parts, all suppliers have to meet the quality standards set by the Company. They are normally required to submit samples of the relevant Out-sourced parts for testing. The Company also undertakes sampling inspection upon the delivery of Out-sourced parts.

Inspection is also conducted by production staff at every process during production. In addition, each production process is overseen by dedicated quality control inspectors. The first product of every batch of processed products is inspected by the quality inspectors followed by a sampling inspection.

Every finished diesel engine product is subject to a full-scale test run before delivery.

SALES AND MARKETING

The Company's WD615 and WD618 Engines are mainly used in five end product types, namely heavy-duty vehicles, construction machines, vessels, coaches and power generators. A breakdown of the Company's unit sales by product type for each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003 is as follows:

	2001 <i>Units</i>	%	2002 <i>Units</i>	%	2003 <i>Units</i>	%
Heavy-duty vehicles	9,886	50.3	22,955	53.2	40,286	50.1
Construction machines	8,783	44.7	18,772	43.5	37,945	47.1
Vessels	668	3.4	1,188	2.7	1,094	1.4
Coaches	—	—	18	—	671	0.8
Power generators	294	1.5	256	0.6	487	0.6
Others	28	0.1	—	—	—	—
Total	19,659	100	43,189	100	80,483	100

As at the Latest Practicable Date, the Company had a sales team of 289 members who were responsible for the Company's marketing activities within the PRC. Currently, the Company's products are not subject to any price control and the Directors are not aware that the Company's products will be subject to any price control in the near future. As at 31 December, 2003, the Company had over 2,000 customers. Sales to the Company's five largest customers accounted for approximately 60.7%, 57.1% and 53.2% of the Company's turnover for each of the three years ended 31 December, 2001,

31 December, 2002 and 31 December, 2003, respectively. Sales to the Company's largest customer accounted for approximately 23.6%, 20.6% and 20.3%, respectively of the Company's turnover for each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003. As at the Latest Practicable Date, none of the Directors, Supervisors, their respective associates or any shareholder (who to the knowledge of the Directors owned more than 5% of the issued capital of the Company) had any interest in any of the top five customers of the Company during the Track Record Period, other than 中國重型汽車集團濟南卡車有限公司 (China National Heavy Duty Truck Group Jinan Trucks Company Limited)⁽¹⁾ and Chongqing Weichai⁽²⁾, both being associates of Weichai Factory for the purposes of the Listing Rules.

For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the aggregate sales to these two associates of Weichai Factory accounted for 25.5%, 25.0% and 21.7% of the total sales of the Company, respectively, and the aggregate sales to the connected persons accounted for 35.7%, 38.6% and 36.9% of the total sales of the Company, respectively.

Notes:

1. *An associate of Weichai Factory⁽³⁾.*
2. *A wholly-owned subsidiary of Weichai Factory⁽³⁾.*
3. *Weichai Factory holds approximately 40.21% interest in the share capital of the Company before the Offering.*

During the Track Record Period, all the sales of the Company were made in Renminbi. Currently the Company provides credit periods of 30 to 90 days to its major customers, and the sales to all other customers are on a payment against delivery basis. The Company assesses the credit worthiness of its customers on a regular basis. For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the debtors turnover periods of the Company were approximately 85.2 days, 30.4 days and 64.1 days, respectively. The improvement between the two years ended 31 December, 2001 and 31 December, 2002 was primarily attributable to the decrease in trade debtors due to prompt settlement by customers as a result of further tightening of the credit policy adopted by the Company. The increase in debtors' turnover days between the two years ended 31 December, 2002 and 31 December, 2003 was mainly because the Company offered better credit terms to its major customers due to their larger purchases during the year. For details of the fluctuations of the debtors turnover periods, please refer to the section headed "Financial information – Debtors' turnover days" in this Prospectus.

For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the Company's provision for bad and doubtful debts were approximately RMB3,204,000, RMB11,250,000 and RMB11,566,000, respectively. The significant increase in such provision from RMB3,204,000 in 2001 to RMB11,250,000 in 2002 was mainly due to the specific provision made in 2002 for those trade receivables that proved to be irrecoverable. The provision of RMB11,566,000 in 2003 was mainly due to the significant increase in sales which led to increase in trade receivables and provision for bad and doubtful debts accordingly. The Company did not write off any trade receivables during the Track Record Period.

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During the Track Record Period, the Company's policy on provision for bad and doubtful debts are as follows:

Aged within 1 year	:	5%
Aged between 1 to 2 years	:	15%
Aged between 2 to 3 years	:	30%
Aged between 3 to 4 years	:	50%
Aged between 4 to 5 years	:	80%
Aged above 5 years	:	100%

In addition, customers with specific collectivity problems will be identified and additional provisions will be made accordingly.

AFTER-SALES SERVICES

After-sales services of the Company are managed via a two-level structure: the service centres of the Company, and the licensed service centres.

Service centres are branch offices of the Company, and they are mainly responsible for the management of the licensed service centres in their respective management areas, arrangement of supply of parts and components for repair and maintenance purposes, training of the maintenance staff of the licensed service centres, and assisting the marketing of the Company. Since the Company's products are mainly used in heavy-duty vehicles and construction machines, which are products of high mobility, in order to ensure that its after-sales services are easily accessible by its customers, the Company needs to operate a service network with a large coverage. As at the Latest Practicable Date, the Company had 37 service centres.

Licensed service centres are not branches or subsidiaries of the Company. They are mainly responsible for the provision of after-sales services such as repair and maintenance of engines and collection of customers' feedbacks. Since most of the Company's products are installed in heavy-duty vehicles, which are by their nature mobile in terms of their geographical locations while being used, it is the Company's policy and is essential to the Company's business to establish an effective service network for the Company's products in the PRC.

The Company entered into contracts with the licensed service centres, which are for a term of one year in general. According to the contracts, the Company shall, inter alia, provide the licensed service centres with free training to their employees, parts and components at discounted prices, technical information, support and supervise their works; and the licensed service centres shall be responsible for, inter alia, providing after-sales services in respect of the Company's products in the relevant designated area and shall only purchase parts and components from the Company or sources approved by the Company. The Company shall pay certain service fees to these licensed service centres for their provision of after-sales services based on, including the costs of works, transportation and communications, incurred by the licensed service centres. For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the Company's warranty expenses

were approximately RMB5,990,000, RMB13,275,000 and RMB30,549,000, respectively, accounting for approximately 0.9%, 0.9% and 1.1% of the Company's costs of sales in the respective periods.

The after-sales services are provided in connection with the warranty in respect of the Company's products or any end-products installed with the Company's products which covers any damage resulting from the manufacturing and installation of the products, under normal use and repair and maintenance. During the warranty period, the Company would, through its service centres and licensed service centres, provide certain free parts and components, which wear-down easily in the normal operation of diesel engines, for the repair and maintenance of the diesel engines sold. The warranty periods for the major products of the Company range from six months to one year or 25,000 to 100,000 miles, depending on the type of products. As at the Latest Practicable Date, the Company had 480 licensed service centres.

As at the Latest Practicable Date, the Company had a team of 67 employees responsible for its after-sales services.

COMPETITION

Market analysis

The Directors consider that there is currently an unsatisfied demand for high-speed heavy-duty diesel engines in the PRC. The tenth Five-year (2001–2005) State Plans of the PRC makes high-tonnage heavy-duty vehicles of 220 kW (or above) a strategic focus for the development of the PRC's automobile industry.

WD615 and WD618 Engines are the leading engine products used by heavy-duty vehicles and construction machines in the PRC, as well as for coaches, power generators and vessels. According to 《中國汽車報》 (China Vehicle Newspaper) dated 13 January, 2004 and 《中國工業報》 (China Industry Newspaper) dated 9 February, 2004, the Company's products had an approximately 71.3% and 73% market share in the market for the new heavy-duty vehicles with a load capacity of 15 tonnes (or above) and the market for the new wheel-loaders with a load capacity of 5 tonnes (or above), respectively, in the PRC in 2003. The Directors believe that the Company can maintain its market penetration in these sectors.

There is no competition between the Company and any of its Promoters (or their respective holding companies) except for Hangqi. Hangqi, located in Hangzhou City, the capital of Zhejiang Province, the PRC, has a registered capital of RMB100 million and is principally engaged in the manufacture of X6130, WD615 and WD612 series diesel engines, which are mainly used in heavy-duty trucks, large, medium and small-sized coaches/passenger cars, power generators and vessels. Accordingly, the business of Hangqi competes with that of the Company to a certain extent. However, the Directors believe that both the production capacity and sales of the Company are higher than those of Hangqi*.

* According to 二零零二年《中國內燃機工業年鑑》(the China Internal Combustion Machine Industry Yearbook 2002), the production and unit sales of medium-bore (high-speed) diesel engines of Weichai Factory were 8,456 and 28,408 sets, respectively, while those of Hangqi were 8,739 and 8,707 sets, respectively in the year of 2001.

Product features analysis

The Directors believe that the competitiveness of a diesel engine depends on its performance in the following three areas: fuel consumption, emission control and power output. In terms of fuel consumption, the minimum fuel consumption levels of WD615 and WD618 are 194g/kWh and 197g/kWh, respectively, which are amongst the best of similar products in the PRC. In terms of emission control, the Company launched its Euro II compliant WD615 Engines and WD618 Engines in 2002 and 2003, respectively. The Company is now upgrading them to Euro III Standards with support from AVL. In terms of power output, WD618 Engines have a maximum output of 323 kW, and insofar as the Directors are aware, no other high-speed diesel engines with similar output are in mass production in the PRC.

RESEARCH AND DEVELOPMENT

The Company has a research and development department which is responsible for the development of the Company's products. For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the Company's expenses on its research and development were approximately RMB2,937,000, RMB3,833,000 and RMB39,412,000, respectively, representing approximately 0.5%, 0.3% and 1.5% of its costs of sales, respectively.

During the Track Record Period, the research and development expenses incurred represented the costs of parts, diesel oil and electricity directly consumed in a variety of projects and no such expenses were capitalised*.

The research and development department is also engaged in the upgrading of existing models of diesel engines, such as the WD615 Engines. WD615 Engines have been developed based on the technology of Steyr's WD615 in the 1980's. After many years of development and improvement, the WD615 Engines are, in terms of technologies and features, amongst the leading diesel engines, in the PRC. This is evidenced by the following major improvements:

1. Fuel consumption

The original WD615 vehicle engines had a minimum fuel consumption of 210 g/kWh, whereas the current WD615 Engines have reached 194 g/kWh.

*

As stated in the accountants' report set out in appendix I to this Prospectus, it is the Company's accounting policy to capitalise an internally-generated intangible asset arising from development expenditure only if it is anticipated that the development cost incurred on a clearly-defined project will be recovered through future commercial activity. During the Track Record Period, the research and development activities conducted by the Company were mainly related to the enhancement and improvement of an existing product, i.e. WD615 Engines. As these enhancement and improvement activities were carried out on a continuous basis, they were not considered as "clearly-defined" projects. Accordingly, these research and development costs were not capitalised but expensed in accordance with the Company's accounting policy.

BUSINESS

- | | |
|------------------------------|---|
| 2. Emission standards | The WD615 Engines reached the Euro I Standards in 2001, and the Euro II Standards in 2002. |
| 3. High altitude performance | The original version of the WD615 Engines was designed to operate mainly on low land normally of not higher than 2,000 metres above sea level, whereas the relevant models of the current WD615 Engines can generally operate at 5,000 metres above sea level with less than 5% power loss. |
| 4. Variants | The original version of the WD615 Engines was designed for vehicle use only. The Company has since developed different models of WD615 Engines for construction machines, vessels and power generators. |
| 5. Improved output | The original WD615 series had a rated power of 110-225 kW, whilst the current WD615 Engines have a rated power of as high as 266 kW. |

The research and development department also developed the WD618 Engines jointly with Steyr. It is currently working with a number of institutes such as Tianjin University and Shandong University on several research and development projects in respect of the WD615 and WD618 Engines, including projects on reducing the noise of diesel engines and improving the performance of the Company's diesel engines. Weichai Factory entered into a noise reduction and design research and improvement agreement and a technical service agreement with Tianjin University on 19 February, 2003 and 19 January, 2003, respectively, for considerations of RMB900,000 and RMB230,000 payable by the Weichai Factory, respectively. These agreements were novated by Weichai Factory to the Company on 25 September, 2003. On 15 August, 2003, the Company entered into a university-enterprise cooperation agreement with Shandong University in respect of, *inter alia*, the provision of certain training, research and development support according to the Company's practical needs and academic exchange, for a consideration of RMB8,000,000 payable by the Company.

The Company and, *inter alia*, AVL entered into a technical development assistance contract in August 2003, whereby, AVL will provide the Company with technical assistance for the purpose of improving the Company's current WD615 and WD618 Engines to meet Euro III Standards and developing different power variants of the Company's WD615 and WD618 Engines for a consideration of Euro 6,100,000 (being the equivalent of approximately HK\$59,658,000) payable by the Company, which was arrived at after arm's length negotiations between the parties. The Company estimates that this project may require around 50 months to complete.

As at the Latest Practicable Date, the research and development department of the Company had 167 employees, including 81 researchers.

INSURANCE

The Company has taken out insurance policies against certain risks on its assets, including its factory premises and equipment. For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the insurance premiums paid by the Company were approximately RMB2,227,000, RMB1,655,000 and RMB3,645,000, respectively, representing approximately 0.4%, 0.1% and 0.1% of the Company's costs of sales, respectively. As at the Latest Practicable Date, the outstanding insurance policies of the Company covered an insured value of approximately RMB487,000,000. The Directors are of the view that the Company's insurance coverage over its assets is adequate.

Since the products of the Company are intermediary products, the Company does not carry any insurance on product liabilities, which, according to the general practice of the industry, is normally taken out by the relevant end-product manufacturers.

ENVIRONMENTAL PROTECTION

The Company is required to comply with the environmental protection laws and regulations promulgated by the PRC Government. The Municipal Environmental Protection Bureau of Weifang has confirmed (under its confirmation dated 8 September, 2003) that the operations of the Company had complied with the applicable State regulations on environmental protection. As at the Latest Practicable Date, the Company had not been alleged to have violated any environmental protection laws or regulations, nor had it been fined for contravening them.

INTELLECTUAL PROPERTY RIGHTS

The trademarks and other intellectual property rights of the Company, of which registrations have been made or are being sought, are set out in the section headed "Further information regarding the business – Intellectual property rights of the Company" in appendix V to this Prospectus.

RELATIONSHIP WITH WEICHAI FACTORY

After the Reorganisation, Weichai Factory has been continuing its business of manufacture and sale of 6160A series, 170Z series and R and 95 series diesel engines. In addition, Weichai Deutz, an associated company of Weichai Factory, manufactures and sells 226B series diesel engines.

The 6160A series and 170Z series are medium speed diesel engines and they are mainly used in fishing boats and power generators of 200 kW (or above), which are different end-products compared to those that use the Company's WD615 Engines, namely yachts and power generators of less than 200 kW. The R and 95 series and 226B series engines are mainly used in agricultural (and related) machines.

None of the above series of diesel engines of Weichai Factory or Weichai Deutz are high-speed heavy-duty diesel engines, and they cannot be used in heavy-duty vehicles with a load capacity of 15 tonnes (or above) or heavy-duty construction machines, which are the key markets for the Company's WD615 and WD618 Engines. The Company's WD615 and WD618 Engines for such heavy-duty vehicles and construction machines accounted for approximately 90.9%, 92.5% and 93.7% of the Company's turnover for each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, respectively. Further, neither Weichai Factory nor Weichai Deutz is able to manufacture these engines at its own production lines. Accordingly, based on the above, the Directors believe that there is no competition between the products of the Company and Weichai Factory.

For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the sales to Weichai Factory and its associates accounted for approximately 27.5%, 26.3% and 24.6% of the Company's total sales, respectively; and the purchases from Weichai Factory and its associates accounted for approximately 35.6%, 38.8% and 31.9% of the Company's total purchase, respectively.

Upon Listing, Weichai Factory will hold an approximately 25.01% direct interest in the entire issued share capital of the Company (assuming that the Over-allotment Option is not exercised) and will be a substantial shareholder of the Company. The transactions between the Company and Weichai Factory (and its associates (within the meaning of the Listing Rules)) will then become connected transactions of the Company. For details, please refer to the section headed "Business – Connected transactions". Pursuant to an agreement entered into between the Company and Weichai Factory dated 20 August, 2003, Weichai Factory has undertaken that, for so long as Weichai Factory holds 10% (or more) of the Company's total issued shares or the H Shares are listed on the Stock Exchange, it will not, and will procure that its subsidiaries (except the Company and its subsidiaries, if any) will not, *inter alia*, engage or hold shares in any business which may compete directly or indirectly with the business of the Company.

Acquisition of manufacturing equipment from Chongqing Weichai

The Company and Weichai Factory entered into an agreement dated 30 June, 2003 for the acquisition of certain equipment relating to the manufacture of WD615 diesel engines from Chongqing Weichai for a consideration of approximately RMB65 million, which was arrived at after taking into account the valuation prepared by Vigers, an independent valuer. The acquisition was completed in September 2003 and the consideration was fully settled in cash.

The acquisition of the above manufacturing equipment from Chongqing Weichai was not conducted during Reorganisation. It was because the relevant equipment of Chongqing Weichai was pledged to secure certain banking facilities and the pledge was not released until 19 June, 2003. On 30 June, 2003, the Company entered into agreement to acquire the WD615 related manufacturing equipment from Chongqing Weichai in order to avoid competition and to increase its production capacity to meet market demand.

Transfer of trademarks

Pursuant to the use and transfer of trademarks agreement dated 17 November, 2003 (as amended) between the Company and Weichai Factory, Weichai Factory has agreed to transfer its interest in “潍柴”, “Weichai” and “同心” trademarks (“Trademarks”) to the Company for a total consideration of RMB140 million (“Trademark Consideration”) on the basis of the relevant independent trademarks valuation report set out in appendix III-D to this Prospectus, which shall be paid (i) for the period prior to the Company obtaining the registrations of all the Trademarks, in the form of a monthly licence fee of RMB1,296,000 (“Trademark Monthly Fee”), and (ii) the Trademark Consideration payable by the Company will be deemed reduced by the aggregate amount of the Trademark Monthly Fees paid and such reduced amount will be payable by the Company after the Company obtaining the registrations of all the Trademarks by five equal instalments on 31 December of each of the then current and subsequent years. Pending the completion of the registrations of the above Trademarks, the Company has the right to use the Trademarks under the above agreement. Since (i) Weichai Factory will continue to use the Trademarks after the entering into of the above use and transfer of trademarks agreement, and (ii) after the completion of the registration of the Trademarks under the Company’s name at the Trademark Bureau of the State Administration for Industry and Commerce, the Company will become the registered owner of the Trademarks, therefore, (a) in arriving at the above Trademark Consideration, the value attributable to the uses of the Trademarks by Weichai Factory was not taken into account, and (b) under the above use and transfer of trademarks agreement, the Company has also agreed to grant a right to Weichai Factory to use such Trademarks. As the Trademark Consideration did not take into account the value attributable to the uses of the Trademarks by Weichai Factory, Weichai Factory is not required to pay any fee to the Company under the use and transfer of trademarks agreement. Weichai Factory has undertaken with the Company that it will only use the Trademarks on the products manufactured by itself, and will not allow any of its associates to use or sub-license any third party the right to use the Trademarks. Weichai Factory’s and the Company’s use of the same trademark do not preclude them from having a clear delineation of their respective businesses, because their products (and the end-products using their products) are different (for details, please refer to the section headed “Business – Relationship with Weichai Factory”). Vigers, being the independent valuer appointed by the Company for the purpose of the Listing, has reviewed the above use and transfer of trademarks agreement, and confirmed that the basis of determination and the amount of the Trademark Consideration are fair and reasonable.

As the registrations of all the Trademarks had not been completed as at 31 December, 2003, the Trademarks were not recognised as intangible assets of the Company as at that date. If the registrations of all the Trademarks were completed on 1 January, 2003, the Company would have recorded intangible assets of RMB140 million and an amount payable to Weichai Factory of the same amount at that date; and the amortisation charge of the trademarks for the year ended 31 December, 2003 would have been approximately RMB15.6 million.

For further information relating to the Trademarks, please refer to the trademark valuation report set out in appendix III–D to this Prospectus.

Transfer of technologies

Pursuant to the diesel engine manufacturing technologies use and transfer agreement dated 17 November, 2003 (as amended), Weichai Factory has agreed to transfer the technologies (“Technologies”) in relation to the WD615 Engines and WD618 Engines to the Company for a total consideration of RMB280 million (“Technologies Consideration”) on the basis of the relevant

independent technology valuation report set out in appendix III-C to this Prospectus, which shall be paid (i) for the period prior to the Company obtaining all the relevant registrations from the State Intellectual Property Office of the PRC, in the form of a monthly licence fee of RMB5,185,000 (“Technologies Monthly Fee”), and (ii) the Technologies Consideration payable by the Company will be deemed reduced by the aggregate amount of the Technologies Monthly Fees paid and such reduced amount will be payable by the Company after the Company obtaining the registrations from the State Intellectual Property Office by five equal instalments on 31 December of each of 2004 to 2008. The relevant registrations from the State Intellectual Property Office were obtained and became effective on 28 November, 2003. Vigers, being the independent valuer appointed by the Company for the purpose of the Listing, has reviewed the diesel engine manufacturing technologies use and transfer agreement, and confirmed that the basis of determination and the amount of the above-mentioned Technologies Consideration are fair and reasonable.

If the above acquisition of the Technologies was completed and the relevant registrations with the State Intellectual Property Office were obtained and became effective on 1 January, 2003, the Company would have recorded intangible assets of RMB280 million and an amount payable to Weichai Factory of the same amount at that date; and the amortisation charge of the Technologies for the year ended 31 December, 2003 would have been approximately RMB62.2 million.

For further information relating to the Technologies, please refer to the technology valuation report set out in appendix III-C to this Prospectus.

Lease of certain buildings and equipment

The Company has entered into an agreement with Weichai Factory for the lease of certain buildings and equipment from Weichai Factory (further details of which are set out in the paragraph headed “Connected transaction – I. Ongoing transactions between the Company and Weichai Factory – 3. Lease of buildings and equipment by Weichai Factory to the Company” in this section below) for a period of five years (with an option to purchase the same) for the manufacture of certain semi-finished diesel engine parts. Accordingly, with effect from 1 July, 2003, the Company began to manufacture the relevant parts for its own use through these leased facilities, and therefore the Company has ceased to source the relevant parts from Weichai Factory. Since the strategic investors and Promoters, namely, Guangxi Liugong, Fujian Longgong and Peterson (who themselves and/or their associates were already customers of the WD615 Engines prior to the Reorganisation), and Weifang Investment, Shenzhen Investment and IVM, in general, were only interested in the Company’s business of the sale of WD615 and WD618 Engines, the Company did not acquire the ownership of such buildings and equipment at the time of the Reorganisation. Since the Company has been granted an option (under the relevant lease agreement) by Weichai Factory to purchase such buildings and equipment, the Company may consider purchasing the same during the term of the relevant lease, subject to the then financial condition and prospects of the Company, the availability of the relevant semi-finished diesel engine parts in the market and compliance with the disclosure, shareholders’ approval and other requirements of the Listing Rules.

Import and export arrangements

Weichai Factory and the Company require raw materials, Out-sourced parts and equipment to be imported from outside the PRC from time to time. It is a requirement of the PRC law that the relevant import and export matters have to be handled by a PRC entity with the right (“Import/Export Right”) to deal with such matters. The Company obtained its Import/Export Right in June

2003 and can now handle such requirements. Prior to that time, the import and export requirements of both Weichai Factory and the Company were handled by 山東濰柴進出口有限公司 (Shandong Weichai IMP. & EXP. Corp., a legal person wholly owned by Weichai Factory), which has the relevant Import/Export Right. During the Track Record Period, the transactions between the Company and Shandong Weichai IMP. & EXP. Corp. were mainly purchases of raw materials, Out-sourced parts and equipment. No consideration was paid by the Company for these transactions during the Track Record Period.

The Company entered into an agreement with AVL in August 2003 for the purpose of, *inter alia*, upgrading the Company's WD615 and WD618 diesel engines to Euro III Standards. Since Shandong Weichai IMP. & EXP. Corp. was involved in the discussions and negotiation when they commenced in October 2002, the Company considered that it would be beneficial that continuity in the entities involved in the transaction process be maintained, and, accordingly, Shandong Weichai IMP. & EXP. Corp. was engaged to handle the import and shipment of the relevant items under the agreement, and the Company will pay the agreed consideration of Euro 6,100,000 (being the equivalent of approximately HK\$59,658,000, and which amount was arrived at after arm's length negotiations between the Company and AVL, and by reference to other third parties' quotations), through Shandong Weichai IMP. & EXP. Corp., to AVL. The Company is not required to pay any service fee to Shandong Weichai IMP. & EXP. Corp. for such services.

During the Track Record Period, the sales of diesel engines to Shandong Weichai IMP. & EXP. Corp. and the purchase of materials, Out-sourced parts from Shandong Weichai IMP. & EXP. Corp. were conducted at market prices.

For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the Company's purchases on its import and export arrangements with Shandong Weichai IMP. & EXP. Corp. were approximately RMB66,655,000, RMB154,352,000 and RMB173,930,000, respectively, representing approximately 10.3%, 10.6% and 6.5% of its costs of sales, respectively.

For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the Company's sales on its import and export arrangements with Shandong Weichai IMP. & EXP. Corp. were approximately RMB393,000, RMB10,714,000 and RMB7,008,000, respectively, representing approximately 0.1%, 0.6% and 0.2% of its sales, respectively.

RELATIONSHIP WITH THE CHINA HEAVY DUTY TRUCK GROUP

Weichai Factory is wholly-owned by CHDTGL. Pursuant to a document issued by 中國國家經濟委員會 (State Economic Planning Commission) and 中國汽車工業公司 (China Automobile Industry Company) in 1984, Weichai Factory was allocated to CHDTGL and the ownership was further confirmed in 2003. CHDTGL is a State-owned enterprise and the China Heavy Duty Truck Group is engaged in, *inter alia*, the manufacture of coaches, heavy-duty vehicles and vehicle parts. Hangqi is wholly-owned by CHDTGL. Hangqi, located in Hangzhou City, the capital of Zhejiang Province, the PRC, has a registered capital of RMB100 million and is principally engaged in the manufacture of X6130, WD615 and WD612 series diesel engines, which are mainly used in heavy-duty trucks, large, medium and small-sized coaches/passenger cars, power generators and vessels. Accordingly, the business of Hangqi competes with that of the Company to a certain extent as the

China Heavy Duty Truck Group is the major customer of both the Company and Hangqi for their WD615 Engines. However, the Directors believe that both the production capacity and sales of the Company are higher than those of Hangqi*. The China Heavy Duty Truck Group is a large group of companies and businesses, and the management, businesses and operations of the Company and Hangqi are completely separate from each other and are located in different geographical regions of the PRC. Weichai Factory and Hangqi have been operated as two independent entities, and their management have also been completely separate from and independent of each other. They are located geographically in two provinces (the Company is located in Shandong Province whereas Hangqi is located in Zhejiang Province) which are distant from each other. Accordingly, Weichai Factory (prior to the Reorganisation) had no control (and it still does not have control) over the assets and business of Hangqi, and therefore, the assets and business of Hangqi were not included in the Company under the Reorganisation. In addition, the Directors have confirmed that the operations and business of the Company are independent of and are not influenced by Hangqi.

Apart from Hangqi, the China Heavy Duty Truck Group does not operate any business relating to WD615 and WD618 Engines and there is a clear delineation between the businesses of the Company and the China Heavy Duty Truck Group. The Company has its own production facilities and personnels to manufacture WD615 and WD618 Engines and is able to function independently of the China Heavy Duty Truck Group .

On 18 November, 2003, CHDTGL undertook to the Company that, *inter alia*, for so long as a member of the China Heavy Duty Truck Group holds shares of the Company:

1. if the China Heavy Duty Truck Group is offered any opportunities to participate in any business which competes with that of the Company, CHDTGL will endeavour to procure that such opportunities will be offered to the Company on terms reasonably acceptable to the Company; and
2. CHDTGL granted the Company a first right of refusal to acquire part of or all the shareholding, capital contribution and/or operating assets of Hangqi.

The Company may purchase the business of Hangqi in the future subject to the then market situation as well as the financial conditions and operating performances of both the Company and Hangqi, and compliance with the disclosure, shareholders' approval and other requirements of the Listing Rules. However, there is currently no intention on the part of the Company to purchase Hangqi.

After the completion of the Offering, CHDTGL, through Weichai Factory, will indirectly hold approximately 25.01% of the entire issued share capital of the Company (assuming that the Over-allotment Option is not exercised). Accordingly, CHDTGL will become a connected person of the Company. Therefore, after the Listing, the transactions between the Company and CHDTGL (and its associates) will constitute connected transactions of the Company. (Please refer to the section headed "Business – Connected transactions" below for details.)

* Based on the information supplied by CHDTGL (being the holding company of Hangqi), the unit sales of Hangqi's WD615 engines for the three years ended 31 December, 2003 were approximately 6,200, 10,900 and 16,500 sets, respectively whereas that of the Company's WD615 Engines during the same periods were approximately 19,600, 43,100 and 80,300 sets, respectively. The production volume of Hangqi's WD615 Engines for the three years ended 31 December, 2003 were approximately 6,500, 11,200 and 16,600 sets, respectively whereas that of the Company's WD615 Engines during the same period were approximately 19,600, 45,200 and 80,200 respectively. Furthermore, according to the official website of Hangqi, Hangqi had over 3,000 staff, while the Company had 5,162 employees as at the Latest Practicable Date.

CONNECTED TRANSACTIONS

Prior to the Company's incorporation, it has had business relationships with certain entities. Under the Listing Rules, such entities will become connected persons of the Company immediately after the Listing. Such entities include (i) Weichai Factory and its associates (including CHDTGL and its associates); and (ii) certain Promoters and their respective associates. The following transactions between the Company and the above entities will become the connected transactions of the Company, within the meaning of the Listing Rules, after the Listing:

I. Ongoing connected transactions between the Company and Weichai Factory*1. Provision of general services by Weichai Factory to the Company*

Pursuant to a general services agreement dated 17 November, 2003 (as amended) and entered into between the Company and Weichai Factory, Weichai Factory has agreed to provide the following general services to the Company, namely, environmental protection, security, fire, repair, maintenance and other general services and the payment of certain town land use right tax in relation to the property occupied and/or used by the Company (and/or its staff, if applicable), for a term of three years with effect as from 1 January, 2003.

During the Track Record Period, the costs incurred by Weichai Factory with respect to the provision of the above-mentioned general services to the Company were determined based on the area of the relevant property occupied and/or used by the Company (and/or its staff, if applicable). In each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the total costs incurred by Weichai Factory with respect to the provision of the general services to the Company amounted to approximately RMB8.3 million, RMB10.0 million and RMB9.1 million, respectively, representing approximately 1.3%, 0.7% and 0.3%, respectively of the Company's cost of sales.

Under the general services agreement, the fees to be charged by Weichai Factory will be based on the costs incurred by it and apportioned on a pro-rata basis according to the area of the relevant property occupied and/or used by the Company (and/or its staff, if applicable) plus a service charge representing 20% of such costs (save that the town land use right tax paid by Weichai Factory on behalf of the Company and its staff, if applicable, and the charges for the common area utilities provided by Weichai Factory to the property occupied by the Company's staff will not be subject to the 20% service charge mentioned above). The 20% service charge was determined by reference to the document issued by the Ministry of Finance on 21 December, 2001 regarding the accounting treatment of sales of goods between connected parties and also by reference to the gross profit margin of the Company.

In addition, Weichai Factory has agreed that the charges for the general services referred to above will not be higher than the fees payable to it by any independent third parties. If the Company is able to secure the provision of any services similar to those referred to above by itself or from a third party on terms better than those set out in the general services agreement, then the Company is entitled to terminate the relevant services by giving not less than 30 days' prior notice to Weichai Factory.

It is expected that the amount payable by the Company to Weichai Factory in respect of such general services for the two financial years ending 31 December, 2004 and 31 December, 2005 will not exceed RMB15 million and RMB16 million, respectively and such amounts have accordingly been set as the caps (as referred to in the section headed "Business – Connected Transactions – Waiver" below) for the above continuing connected transactions. The above caps were estimated primarily based on the relevant historical costs incurred plus a service charge representing 20% of such costs and the estimated salary growth rate for each of the financial years ending 31 December, 2004 and 2005. The growth of the caps was mainly attributable to the increase in area used by the Company after the lease of the Buildings and Equipment (referred to in the paragraph headed "3. Lease of buildings and equipment by Weichai Factory to the Company" below in this section) from Weichai Factory.

2. Supply and/or connection of utilities by Weichai Factory to the Company

Pursuant to a utility services agreement dated 17 November, 2003 and entered into between the Company and Weichai Factory, Weichai Factory has agreed to provide or provide the connection of (as the case may be) the following utility and energy services to the Company, namely, water, electricity, gas, steam, oxygen, nitrogen, compressed air, waste water treatment and supply of treated waste water, etc. for a term of three years with effect as from 1 January, 2003.

During the Track Record Period, the costs incurred by Weichai Factory with respect to the provision and/or connection of the utility and energy services to the Company were determined based on the amount of utilities supplied to the Company. In each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the total costs incurred by Weichai Factory in this regard amounted to approximately RMB9.1 million, RMB14.3 million and RMB54.7 million, respectively, representing approximately 1.4%, 1.0% and 2.0%, respectively of the Company's costs of sales.

Under the utility services agreement, the fees payable by the Company to Weichai Factory in respect of the relevant utility and energy services will be determined based on the usage of the Company and by reference to the market prices of such utilities. If only government published rates are available with respect to certain utilities, the fees payable will be determined by reference to the government published rates plus the wastage, depreciation and repair expenses incurred by Weichai Factory in relation thereto. If no market price or government published rates with respect to the above utilities are available, the Company will pay the costs incurred by Weichai Factory in relation to the provision of the relevant utility and

energy services plus a service charge representing 20% of such costs. The 20% service charge was determined by reference to the document issued by the Ministry of Finance on 21 December, 2001 regarding the accounting treatment of sales of goods between connected parties and also by reference to the gross profit margin of the Company.

Water, electricity and gas are supplied by the relevant government bureau in Weifang City, Shandong Province, the PRC (where the Company's relevant premises are situated) to the consumers in Weifang who have maintained accounts with it. As at the date of this Prospectus, the Company does not maintain a separate account with the local government bureau in Weifang, as the Company considers it to be more economical to utilise the ducts, cables and electricity transmission facilities installed and maintained by Weichai Factory instead of installing and maintaining its own. The Company will consider terminating the utility services agreement should the cost of sourcing the above utilities by itself is cheaper than the fees charged by Weichai Factory under the above utility services agreement.

In addition, Weichai Factory has agreed that the charges for the utilities or energy produced by Weichai Factory internally will not be higher than the consideration payable to it by any independent third parties. If the Company is able to secure the provision of any utility and energy services similar to those referred to above by itself or from a third party on terms better than those set out in the utility services agreement, then the Company is entitled to terminate the relevant services by giving not less than 30 days' prior notice to Weichai Factory.

It is expected that the fees payable by the Company to Weichai Factory in respect of the utility and energy services mentioned above for the two financial years ending 31 December, 2004 and 31 December, 2005 will not exceed RMB135 million and RMB170 million, respectively and such amounts have accordingly been set as the caps for these continuing connected transactions. The above caps were prepared by the Company primarily based on its estimate of the production volume of its diesel engines. The growth of the caps is mainly attributable to the estimated increase in the utility consumed by the Company after the lease of the Buildings and Equipment (as defined below) from Weichai Factory with affect from 1 July, 2003 and, which in turn is based, to a certain extent, on the estimated demand provided by the Company's customers.

3. Lease of buildings and equipment by Weichai Factory to the Company

Pursuant to an asset lease agreement dated 21 October, 2003 and entered into between the Company and Weichai Factory, Weichai Factory has agreed to lease to the Company, certain buildings (including factories and warehouses) situated in Weichai Factory (the "Buildings") and all the equipment in relation to the manufacture of certain semi-finished diesel engine parts (collectively known as the "Equipment") located in the Buildings (and such Buildings and Equipment are commonly known as the casting and forging workshop) for a term of 5 years commencing 1 July, 2003 at an annual rental of RMB42,814,310, and RMB43 million has accordingly been set as the annual cap for this continuing connected transaction.

The Buildings, which are located in Weifang city of Shandong Province and used as a casting and forging workshop, comprise a parcel of industrial land with a site area of approximately 154,944 sq.m. and 29 buildings and other ancillary structures with a total gross floor area of approximately 63,245 sq.m. Weichai Factory has obtained the leased State-owned Land Use Right Certificate for the property and all the relevant approvals from the local government of Weifang City and other relevant authorities in the PRC in relation to the sub-lease of the above property by Weichai Factory to the Company have also been obtained.

In addition, under the asset lease agreement, Weichai Factory has granted an option to the Company to require Weichai Factory to sell the Buildings and the Equipment to the Company at any time during the term of the above agreement. Should the Company exercise this option to purchase the Buildings and the Equipment, the relevant consideration payable by the Company will be determined by an independent property valuer. The Company will also comply with the relevant provisions of the Listing Rules if it intends to exercise the said option.

Vigers, being the independent valuer appointed by the Company for the purpose of the Listing, has reviewed the terms of the above agreement, and confirmed that the above-mentioned amounts of annual rentals for the Buildings and the Equipment reflect the prevailing market rates and is fair and reasonable.

4. Supply of WD615 Engines by the Company to Weichai Factory

Apart from the manufacture and sale of diesel engines, Weichai Factory is also engaged in the manufacture and sale of power generators, of which WD615 Engines are one of the components.

During the Track Record Period, the Company only commenced to sell WD615 Engines to Weichai Factory in 2003 at market prices, such sales amounted to approximately RMB4 million, representing approximately 0.1% of the Company's turnover for the year ended 31 December, 2003.

It is expected that the total consideration payable by Weichai Factory to the Company for the two financial years ending 31 December, 2004 and 31 December, 2005 will not exceed RMB6 million and RMB7 million, respectively, and such amounts have accordingly been set as the caps for these continuing connected transactions. Such transactions will be conducted on the basis of market prices and the Company has entered into a framework agreement with Weichai Factory in this regard. The above caps were prepared by the Company primarily based on its estimate of the number of units of the diesel engines required by Weichai Factory and of the average unit prices of those diesel engines. The growth of the caps was mainly attributable to the estimated increase in demand of WD615 Engines from Weichai Factory, which in turn was based, to a certain extent, on the estimated demand for the power generators manufactured by Weichai Factory.

5. *Supply of finished diesel engine parts by Weichai Factory to the Company*

Pursuant to a finished diesel engine parts supply agreement dated 17 November, 2003 and entered into between the Company and Weichai Factory, Weichai Factory has agreed that, for a period of three years with effect as from 1 January, 2003, with respect to any supply of finished diesel engine parts by Weichai Factory to the Company, such supply will be made at a consideration equal to the lower of (i) the costs in relation to the manufacture of the relevant finished diesel engine parts incurred by Weichai Factory plus a service charge not exceeding 20% of such costs; or (ii) the relevant market prices (if available).

Weichai Factory has agreed that the consideration for the supply of finished diesel engine parts to the Company will not be higher than the consideration paid to Weichai Factory by any independent third parties.

During the Track Record Period, Weichai Factory provided certain finished diesel engine parts to the Company based on the costs incurred by Weichai Factory with respect to the manufacture of such finished diesel engine parts. In each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the total costs incurred by Weichai Factory with respect to the provision of finished diesel engine parts amounted to approximately RMB12.4 million, RMB26.2 million and RMB37.1 million, respectively, representing approximately 1.9%, 1.8% and 1.4%, respectively of the Company's costs of sales.

It is expected that the total consideration payable by the Company to Weichai Factory for the two financial years ending 31 December, 2004 and 31 December, 2005 will not exceed RMB65 million and RMB93 million, respectively, and such amounts have accordingly been set as the caps for these continuing connected transactions. The above caps were prepared by the Company primarily based on its estimate of the production volume of diesel engines and of the average unit prices (which were projected based on the Company's estimated salary growth rate) of those finished diesel engine parts to be purchased by the Company. The significant growth of the caps was mainly attributable to the estimated increase in production volume of WD615 Engines, which in turn was based, to a certain extent, on the estimated demand provided by the Company's customers.

6. *Supply of semi-finished diesel engine parts by the Company to Weichai Factory*

Pursuant to a semi-finished diesel engine parts supply agreement dated 17 November, 2003 and entered into between the Company and Weichai Factory, the Company has agreed that, for a period of three years with effect as from 1 July, 2003, with respect to any supply of semi-finished diesel engine parts by the Company to Weichai Factory, such supply will be made at a consideration based on the costs in relation to the provision of the semi-finished diesel engine parts incurred by the Company plus a service charge not exceeding 20% of such costs, but will not be less than the relevant market prices, if any (provided that it is permitted by the relevant laws and regulations in the PRC to do so). The 20% service charge was determined by reference to the document issued by the Ministry of Finance on 21 December,

2001 regarding the accounting treatment of sales of goods between connected parties and also by reference to the gross profit margin of the Company.

The Company only leased the relevant Buildings and Equipment from Weichai Factory for the manufacture of semi-finished diesel engine parts with effect as from 1 July, 2003. Accordingly, during the Track Record Period, the Company only supplied the above-mentioned semi-finished diesel engine parts to Weichai Factory as from 1 July, 2003. The total sales with respect to the provision of semi-finished diesel engine parts for the year ended 31 December, 2003 amounted to approximately RMB20.1 million, representing 0.6% of the Company's turnover.

It is expected that the total consideration payable by Weichai Factory to the Company for the two financial years ending 31 December, 2004 and 31 December, 2005 will not exceed RMB45 million and RMB52 million, respectively, and such amounts have accordingly been set as the caps for these continuing connected transactions. The above caps were prepared by the Company primarily based on its estimate of the number of the units of the semi-finished diesel engine parts to be sold by the Company to Weichai Factory, which in turn was based on the estimation prepared by Weichai Factory of its production volume of diesel engines and of the average prices per ton of those semi-finished diesel engine parts. The average price was estimated based on the estimated costs in relation to the provision of the semi-finished diesel engine parts plus a service charge of 20% of such costs.

7. *Provision of sales and warranty period repair services by the Company to Weichai Factory*

As the Company and Weichai Factory share the same sales and maintenance network prior to the incorporation of the Company, and such network has become part of the business of the Company after its incorporation, the Company and Weichai Factory entered into a master sales and warranty period repair services agreement dated 17 November, 2003 in this regard. Under such agreement, the Company has agreed to provide sales and warranty period repair services to the customers of Weichai Factory with respect to the diesel engines manufactured by Weichai Factory for a period of three years with effect as from 1 September, 2003. In consideration of the services provided by the Company, Weichai Factory has agreed to pay the Company an annual service fee of 3% of the total amount of sales of diesel engines procured by the Company. The 3% service charge is determined based on the historical sales and maintenance costs incurred by Weichai Factory.

As the Company only started to provide the above-mentioned sales and warranty period repair services as from 1 September, 2003, the total service fees paid by Weichai Factory to the Company in the four months ended 31 December, 2003 amounted to approximately RMB2.5 million, representing approximately 0.1% of the Company's turnover for the financial year ended 31 December, 2003.

It is expected that the total service fees payable by Weichai Factory to the Company for the two financial years ending 31 December, 2004 and 31 December, 2005 will not exceed approximately RMB8 million and RMB8 million, respectively, and such amounts have accordingly been set as the proposed caps for these continuing connected transactions. The above caps were estimated by the Company based on 3% of the estimated amount of the sales of diesel engines (manufactured by Weichai Factory) procured by the Company.

II. Ongoing connected transactions between the Company and Chongqing Weichai

Chongqing Weichai is wholly-owned by Weichai Factory and, therefore, Chongqing Weichai is an associate of Weichai Factory and, hence, a connected person of the Company. Accordingly, any transactions entered into between the Company and Chongqing Weichai after the Listing will constitute connected transactions of the Company.

In July 2003, the Company acquired certain production equipment forming the Chongchai Production Line situated at the premises of Chongqing Weichai and set up its branch office in Chongqing (“Chongqing Branch”) situated at the same location of Chongqing Weichai. Accordingly, the Company considers it to be more economical to source general services, supply and/or connection of utilities, lease land and buildings and procure processing services from or through Chongqing Weichai than to establish its own facilities.

1. Provision of general services by Chongqing Weichai to the Company

Pursuant to a general services agreement dated 17 November, 2003 (as amended) and entered into between the Company and Chongqing Weichai, Chongqing Weichai has agreed to provide the following general services to Chongqing Branch, namely, environmental protection, security, fire and other general services and the payment of certain town land use right tax in relation to the property used by Chongqing Branch for a term of three years with effect as from 1 July, 2003.

Under the general services agreement, the fees to be charged by Chongqing Weichai will be based on the costs incurred by it and apportioned on a pro-rata basis according to the area of the property occupied and/or used by Chongqing Branch (and/or its staff, if applicable) plus a service charge representing 20% of such costs (save that the town land use right tax paid by Chongqing Weichai on behalf of Chongqing Branch and its staff, if applicable, will not be subject to the said 20% service charge). The 20% service charge was determined by reference to the document issued by the Ministry of Finance on 21 December, 2001 regarding the accounting treatment of sales of goods between connected parties and also by reference to the gross profit margin of the Company.

With respect to certain public utilities provided by Chongqing Weichai to certain common area by both Chongqing Weichai and Chongqing Branch, the costs with respect to such public utilities incurred by Chongqing Weichai will be shared between Chongqing Weichai and Chongqing Branch pro-rated according to their respective annual sales.

In addition, Chongqing Weichai has agreed that the charges for the general services referred to above will not be higher than the fees payable to it by any independent third parties. If the Company is able to secure the provision of any services similar to those referred to above by itself or from a third party on terms better than those set out in the general services agreement, then the Company is entitled to terminate the relevant services by giving not less than 30 days' prior notice to Chongqing Weichai.

As the Company only leased the Chongqing Properties (as defined in the paragraph headed "Lease of properties by Chongqing Weichai to the Company" below) as from 1 July, 2003, Chongqing Weichai only provided the above general services to Chongqing Branch in the six months ended 31 December, 2003 during the Track Record Period. The total service fees paid by the Company to Chongqing Weichai in the six months ended 31 December, 2003 amounted to approximately RMB4 million, representing approximately 0.1% of the Company's turnover for the financial year ended 31 December, 2003.

It is expected that the service fees payable by the Company to Chongqing Weichai in respect of such general services for the two financial years ending 31 December, 2004 and 31 December, 2005 will not exceed RMB5 million and RMB6 million, respectively, and such amounts have accordingly been set as the caps for the above continuing connected transactions.

2. Supply and/or connection of utilities by Chongqing Weichai to the Company

Pursuant to a utility services agreement dated 17 November, 2003 and entered into between the Company and Chongqing Weichai, Chongqing Weichai has agreed to provide or provide the connection of (as the case may be) the following utility and energy services to Chongqing Branch, namely, water, electricity, natural gas, steam, oxygen, nitrogen and compressed air, etc. for a term of three years with effect as from 1 July, 2003.

Under the utility services agreement, the fees payable by the Company to Chongqing Weichai in respect of the relevant utility and energy services will be determined based on the usage thereof by Chongqing Branch, or, if it is not possible to measure such usage, pro-rated according to the respective sales of Chongqing Weichai and Chongqing Branch and by reference to the market prices of such utilities. If only government published rates are available with respect to certain utilities, the fees payable will be determined by reference to the government published rates plus the wastage, depreciation and repair expenses incurred by Chongqing Weichai in relation to the provision of the relevant utilities. If no market prices or government published rates with respect to any of the above utilities are available, the Company will pay the costs incurred by Chongqing Weichai in relation to the provision of the above utility and energy services plus a service charge representing 20% of such costs. The 20% service charge was determined by reference to the document issued by the Ministry of Finance on 21 December, 2001 regarding the accounting treatment of sales of goods between connected parties and also by reference to the gross profit margin of the Company.

Water, electricity and natural gas are supplied by the relevant government bureau in Chongqing, the PRC (where the Chongqing Branch's premises are situated) to the consumers in Chongqing who have maintained accounts with it. As at the date of this Prospectus, Chongqing Branch does not maintain a separate account with the local government bureau in Chongqing, as the Company considers it to be more economical to utilise the ducts, cables and electricity transmission facilities installed and maintained by Chongqing Weichai instead of installing and maintaining its own. The Company will consider terminating the utility services agreement should the cost of sourcing the above utilities by itself is cheaper than the fees charged by Chongqing Weichai under the above utility services agreement.

In addition, Chongqing Weichai has agreed that the charges for the utilities or energy produced by Chongqing Weichai internally will not be higher than the consideration payable to it by any independent third parties. If the Company is able to secure the provision of any utility and energy services similar to those referred to above by itself or from a third party on terms better than those set out in the utility services agreement, then the Company is entitled to terminate the relevant services by giving not less than 30 days' prior notice to Chongqing Weichai.

As the Company only leased the Chongqing Properties (as defined in the paragraph headed "Lease of properties by Chongqing Weichai to the Company" below) as from 1 July, 2003, Chongqing Weichai only provided the above supply and connection of utilities services to Chongqing Branch in the six months ended 31 December, 2003 during the Track Record Period. The total fees paid by the Company to Chongqing Weichai in the six months ended 31 December, 2003 amounted to approximately RMB7 million, representing approximately 0.2% of the Company's turnover for the financial year ended 31 December, 2003.

It is expected that the fees payable by the Company to Chongqing Weichai in respect of the utility and energy services mentioned above for the two financial years ending 31 December, 2004 and 31 December, 2005 will not exceed RMB65 million and RMB90 million, respectively and such amounts have accordingly been set as the caps for these continuing connected transactions. The above caps were prepared by the Company primarily based on its estimate of the production volume of diesel engine parts of Chongqing Branch as assigned by the Company. The production volume of the Chongqing Branch, and hence the consumption of utilities, is assumed to be a function of the production volume of the Company. The significant growth of the caps was mainly attributable to the estimated increase in production volume of diesel engine parts of Chongqing Branch as assigned by the Company.

3. Lease of properties by Chongqing Weichai to the Company

Pursuant to a lease agreement dated 1 July, 2003 and entered into between the Company and Chongqing Weichai, Chongqing Weichai has agreed to lease to the Company, certain land and buildings situated thereon (together the "Chongqing Properties"), at which the Chongqing Production Line is situated, for a term of 5 years effective as from 1 July, 2003 at an annual rental of RMB3,404,000, and RMB4 million has accordingly been set as the annual cap for this continuing connected transaction.

Chongqing Properties include the Chongqing Weichai industrial complex, which comprises various parcels of industrial land with a total site area of approximately 49,207 sq.m. and 23 buildings and structures with a total gross floor area of approximately 35,554 sq.m.

Under the above lease agreement, Chongqing Weichai has agreed to renew the term of the above agreement upon its expiry (the period of which will be subject to further negotiation between the Company and Chongqing Weichai) based on the same terms and conditions set out in the above lease agreement and the annual rental will not be higher than the prevailing market price at that time.

Vigers, being the independent valuer appointed by the Company for the purpose of the Listing, has reviewed the terms of the lease agreement, and confirmed that the above-mentioned amount of annual rental for the Chongqing Properties reflects the prevailing market rates and is fair and reasonable.

4. Provision of processing services by Chongqing Weichai to the Company

Pursuant to the processing services agreement dated 17 November, 2003 (as amended) and entered into between the Company and Chongqing Weichai, Chongqing Weichai has agreed to provide processing services to Chongqing Branch with respect to certain semi-finished diesel engine parts for a period of three years with effect as from 1 July, 2003. The service fees to be charged by Chongqing Weichai is based on the lower of (i) the costs in relation to the provision of such processing services incurred by Chongqing Weichai plus a service charge representing 20% of such costs; or (ii) the relevant market prices (if available). The 20% service charge was determined by reference to the document issued by the Ministry of Finance on 21 December, 2001 regarding the accounting treatment of sales of goods between connected parties and also by reference to the gross profit margin of the Company.

As Chongqing Branch was only established in July 2003, Chongqing Weichai only provided the above processing services to Chongqing Branch from the time of Chongqing Branch's establishment up to 31 December, 2003 during the Track Record Period. The total fees paid by the Company to Chongqing Weichai during the said period in the financial year ended 31 December, 2003 amounted to approximately RMB31.2 million, representing approximately 1.2% of the Company's costs of sale for the financial year ended 31 December, 2003. As Chongqing Branch was only established in July 2003, Chongqing Weichai only started to provide processing services to Chongqing Branch from July 2003. The above-mentioned fee of RMB31.2 million therefore only represented the services rendered as from July 2003.

It is expected that the service fees payable by the Company to Chongqing Weichai in respect of such processing services for the two financial years ending 31 December, 2004 and 31 December, 2005 will not exceed RMB96 million and RMB164 million, respectively, and such amounts have accordingly been set as the caps for the above continuing connected

transactions. The above caps were prepared by the Company primarily based on its estimate of the processing volume required by the Company, which is in turn a function of the production volume of the Company, and of the processing cost per kilogram which was prepared based on the Company's estimate of its salary growth rate.

III. Ongoing connected transactions between the Company and the China Heavy Duty Truck Group

Weichai Factory is wholly-owned by CHDTGL and, therefore, CHDTGL is an associate of Weichai Factory and, hence, a connected person of the Company. Accordingly, any transactions entered into between the Company and CHDTGL (or its associates) after the Listing will constitute connected transactions of the Company.

CHDTGL and its associates (excluding Weichai Factory, Chongqing Weichai, Weichai Deutz and Weichai Gas) are engaged in the businesses of, inter alia, manufacture and sale of coaches and heavy-duty vehicles and vehicle parts, certain of which require the diesel engines and certain finished diesel engine parts manufactured by the Company. In each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the Company sold diesel engines and finished diesel engine parts to CHDTGL and/or its above-mentioned associates at market prices, and such sales amounted to approximately RMB216.0 million, RMB396.3 million and RMB750.1 million, respectively, representing approximately 25.2%, 21.1% and 21.1%, respectively of the Company's turnover in each of those periods.

At the same time, the Company also purchased certain finished and semi-finished diesel engine parts manufactured by CHDTGL and/or its associates for the manufacture of the Company's the diesel engines. In each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the Company purchased such finished and semi-finished diesel engine parts from CHDTGL and/or its associates at market prices, and such purchases amounted to approximately RMB25.7 million, RMB36.3 million and RMB22.4 million, respectively, representing approximately 4.0%, 2.5% and 0.8% of the Company's costs of sales in each of those periods.

It is expected that the total consideration payable by CHDTGL and/or its associates to the Company for the two financial years ending 31 December, 2004 and 31 December, 2005 will not exceed RMB1,029 million and RMB1,465 million, respectively, and the total consideration payable by the Company to CHDTGL and/or its associates for the two financial years ending 31 December, 2004 and 31 December, 2005 will not exceed RMB37 million and RMB45 million, respectively, and such amounts have accordingly been set as the caps for these continuing connected transactions. Such transactions will be conducted on the basis of market prices and the Company has entered into framework agreements with the relevant associate of CHDTGL in this regard. The above caps were prepared by the Company primarily based on (i) the Company's estimate of the number of units of the diesel engines to be sold by the Company to CHDTGL and/or its associates, of the diesel engine parts to be purchased by the Company, and of the average unit prices of those diesel engines and diesel engine parts; and (ii) the assumption that the amount of the diesel engine parts to be purchased by the Company is a function of its production volume of diesel engines. The significant growth of the caps was mainly attributable to (i) the estimated increase in demand of WD615 Engines by CHDTGL and/or its associates; and (ii) the increase in production volume of WD615 Engines, which in turn was based, to a certain extent, on the estimated demand provided by the Company's customers.

IV. Ongoing connected transactions between the Company and Weichai Gas

Weichai Gas is owned as to 50% by Weichai Factory and as to 50% by Peterson (CNG) Equipment Limited, which is indirectly owned as to 50% by Yeung Sai Hong, a non-executive Director, and as to 50% by Yeung Sai Hong's brother-in-law. Accordingly, Weichai Gas is an associate of Weichai Factory and, hence, a connected person of the Company. Accordingly, any transactions entered into between the Company and Weichai Gas after the Listing will constitute connected transactions of the Company.

Weichai Gas is engaged in the business of, inter alia, manufacture and sale of gas-propelled internal combustion engines and parts, certain of which incorporate the entire WD615 Engines, with modifications, into them.

In each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the Company sold such WD615 Engines and related parts to Weichai Gas at market prices, and such sales amounted to approximately RMB0.9 million, RMB2.8 million and RMB1.3 million, respectively, representing approximately 0.1%, 0.2% and 0.04% of the Company's turnover in each of those periods.

It is expected that the total purchase consideration payable by Weichai Gas to the Company for the two financial years ending 31 December, 2004 and 31 December, 2005 will not exceed RMB6 million and RMB10 million, respectively, and such amounts have accordingly been set as the caps for these continuing connected transactions. Such transactions will be conducted on the basis of market prices and the Company has entered into a framework agreement with Weichai Gas in this regard. The above caps were prepared by the Company primarily based on its estimate of the number of units of the diesel engines to be sold by the Company to Weichai Gas and of the average unit prices of such diesel engines. The significant growth of the caps was mainly attributable to the estimated increase in demand of WD615 Engines by Weichai Gas.

V. Ongoing connected transactions between the Company and Guangxi Liugong Machinery

Guangxi Liugong Machinery is owned as to 63% by Guangxi Liugong, which is a Promoter, and, accordingly, Guangxi Liugong Machinery is an associate of Guangxi Liugong and, hence, a connected person of the Company. Therefore, any transactions entered into between the Company and Guangxi Liugong Machinery will constitute connected transactions of the Company after the Listing.

Guangxi Liugong Machinery is engaged in the manufacture and repair of construction machines, which require the WD615 Engines and parts manufactured by the Company.

For each of the three years ended 31 December, 2001, 31 December, 2002, 31 December, 2003, the Company sold WD615 Engines and parts to Guangxi Liugong Machinery at market prices and such sales amounted to approximately RMB36.9 million, RMB140.8 million and RMB221.5 million, respectively, representing approximately 4.3%, 7.5% and 6.2%, respectively of the Company's turnover in each of those periods.

It is expected that the total consideration payable to the Company by Guangxi Liugong Machinery for such sales for the two financial years ending 31 December, 2004 and 31 December, 2005 will be approximately RMB259 million and RMB287 million, respectively, and such amounts have accordingly been set as the caps for these ongoing connected transactions. Such transactions will be conducted on the basis of market prices and the Company has entered into a framework agreement with Guangxi Liugong Machinery in this regard. The above caps were prepared by the Company primarily based on its estimate of the number of units of the diesel engines to be sold by the Company to Guangxi Liugong Machinery and of the average unit prices of such diesel engines. The significant growth of the caps was mainly attributable to the estimated increase in demand of WD615 Engines by Guangxi Liugong Machinery.

VI. Ongoing connected transactions between the Company and Fujian Longgong

Fujian Longgong is a Promoter, and, accordingly Fujian Longgong is a connected person of the Company. Any transactions entered into between the Company and Fujian Longgong will constitute connected transactions of the Company after the Listing.

Fujian Longgong is engaged in the manufacture and sale of, among others, wheel-loaders, certain of which require the diesel engines and parts manufactured by the Company.

In each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the Company sold diesel engines and parts to Fujian Longgong at market prices, and such sales amounted to approximately RMB10.0 million, RMB31.5 million and RMB61.2 million, respectively, representing approximately 1.2%, 1.7% and 1.7% of the Company's turnover in each of those periods.

It is expected that the total purchase consideration payable to the Company by Fujian Longgong for each of the two financial years ending 31 December, 2004 and 31 December, 2005 will be approximately RMB76 million and RMB76 million, respectively, and such amounts have accordingly been set as the caps for these ongoing connected transactions. Such transactions will be conducted on the basis of market prices and the Company has entered into a framework agreement with Fujian Longgong in this regard. The above caps were prepared by the Company primarily based on its estimate of the number of units of the diesel engines to be sold by the Company to Fujian Longgong and of the average unit prices of such diesel engines.

VII. Ongoing connected transactions between the Company and Shanghai Longgong

Shanghai Longgong is owned as to 39.49% by Li San Yim, a non-executive Director, and as to 60.51% by Ni Yinying, Li San Yim's wife. Li San Yim and Ni Yinying are also interested in 69.16% and 30.84% respectively of the registered capital of Fujian Longgong, being one of the Promoters. Thus Shanghai Longgong is an associate of Li San Yim and, hence, a connected person of the Company.

Shanghai Longgong is engaged in the manufacture and sale of, among others, construction machines, certain of which require the diesel engines and parts manufactured by the Company.

In each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the Company sold diesel engines and parts to Shanghai Longgong at market prices, and such sales amounted to approximately RMB23.6 million, RMB58.4 million and RMB155.2 million, respectively, representing approximately 2.8%, 3.1% and 4.4% of the Company's turnover in each of those periods.

It is expected that the total purchase consideration payable to the Company by Shanghai Longgong for each of the two financial years ending 31 December, 2004 and 31 December, 2005 will be approximately RMB198 million and RMB199 million, respectively, and such amounts have accordingly been set as the caps for these ongoing connected transactions. Such transactions will be conducted on the basis of market prices and the Company has entered into a framework agreement with Shanghai Longgong in this regard. The above caps were prepared by the Company primarily based on its estimate of the number of units of the diesel engines to be sold by the Company to Shanghai Longgong and of the average unit prices of those diesel engines. The growth of the caps was mainly attributable to the estimated increase in demand of WD615 Engines by Shanghai Longgong.

VIII. Ongoing connected transactions between the Company and Weichai Deutz

Weichai Deutz is owned as to 50% by Weichai Factory and, accordingly, Weichai Deutz is an associate of Weichai Factory and, hence, a connected person of the Company. Therefore, any transactions entered into between the Company and Weichai Deutz after the Listing will constitute connected transactions of the Company.

Weichai Deutz is engaged in, inter alia, the manufacture and sale of 226B series of diesel engines and parts, certain of which require semi-finished diesel engine parts provided by the Company.

Pursuant to a master sales agreement entered into between the Company and Weichai Deutz on 21 October, 2003, Weichai Deutz has agreed that for a period of three years with effect as from 1 July, 2003, with respect to any purchases of semi-finished diesel engine parts from the Company for its 226B series of diesel engines, such purchases will be made at a consideration based on the costs incurred by the Company in relation to the provision of the semi-finished diesel engine parts plus a service charge not exceeding 20% of such costs, but will not be less than the relevant market prices, if any (provided it is permitted by the relevant laws and regulations in the PRC to do so).

In each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the Company sold such semi-finished diesel engine parts to Weichai Deutz based on the costs incurred by it plus a service charge not exceeding 20% of such costs, and such sales amounted to approximately RMB1.3 million, RMB3.1 million and RMB7.4 million, respectively, representing approximately 0.2%, 0.2% and 0.2% of the Company's turnover in each of those periods.

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It is expected that the total purchase consideration payable by Weichai Deutz to the Company for the two financial years ending 31 December, 2004 and 31 December, 2005 will not exceed RMB24 million and RMB55 million, respectively, and such amounts have accordingly been set as the caps for these ongoing connected transactions. The above caps were prepared by the Company primarily based on its estimate of the production volume of Weichai Deutz's 226B series diesel engines and of the average unit prices of those semi-finished diesel engines to be charged by the Company. The significant growth of the caps was mainly attributable to the estimated increase in demand of 226B series diesel engine part by Weichai Deutz, which in turn was based on the production volume estimated by Weichai Deutz.

IX. Waiver

The Directors (including the independent non-executive Directors) have confirmed that the above on-going connected transactions (the "Ongoing Connected Transactions") have been or will be the subject of arm's length negotiations between the Company and the relevant parties, and have been or will be entered into by the Company in the ordinary and usual course of its business and either (i) on normal commercial terms or better, or (ii) on terms no less favourable to the Company than those available to or from (as appropriate) independent third parties. The Directors (including the independent non-executive Directors) are of the view that the Ongoing Connected Transactions are fair and reasonable as far as the shareholders of the Company as a whole are concerned.

The arrangements described above will be connected transactions of the Company under the Listing Rules upon the Listing and for so long as the H Shares remain listed on the Stock Exchange and the relevant counterparties remain connected persons of the Company.

Pursuant to the Listing Rules, the transactions pursuant to the above arrangements would normally require disclosure and approval by independent holders of the H Shares. However, the Directors consider that it would be impractical, if the Company is to operate its business effectively, for it to make disclosure or, where necessary, to obtain approvals from the independent holders of the H Shares before each such transaction can be entered into by the Company, and the costs involved would not be beneficial to the shareholders of the Company. Accordingly, the Company has applied for, and has obtained, waiver from the Stock Exchange from compliance with the relevant announcement as well as shareholders' approval requirements of Chapter 14 of the Listing Rules, for each of the two years ending 31 December, 2004 and 2005, in relation to the Ongoing Connected Transactions on the following conditions:

- (1) the transactions, and the respective agreements (if any) governing such transactions, have been or will be:
 - (a) entered into by the Company in the ordinary and usual course of its business; and
 - (b) either (i) on normal commercial terms or better, or (ii) on terms no less favourable to the Company than those available to or from (as appropriate) independent third parties; and

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- (c) on terms that are fair and reasonable so far as the shareholders of the Company as a whole are concerned;
- (2) brief details of the transactions in each year as required by Rule 14.25(1)(A) to (D) of the Listing Rules shall be disclosed in the Company's annual report and accounts for the relevant year;
- (3) the auditors of the Company shall review the transactions annually and shall confirm to the board of Directors in writing that the transactions have received the approval of the board of Directors, and, where applicable, are in accordance with the pricing policies as stated in the Company's financial statements, and, where applicable, have been entered into in accordance with the terms of the relevant agreements governing such transactions or where there is no agreement, on terms no less favourable to the Company than those available to or from (as appropriate) independent third parties, and they have not exceeded the caps referred to in sub-paragraph (5) below; and, if for any reason, the auditors shall decline to accept the engagement or are unable to provide the aforesaid confirmation, the Directors will notify the Stock Exchange immediately;
- (4) the independent non-executive Directors of the Company will review the transactions annually and confirm, in the Company's annual report and accounts for the year in question, that the transactions are conducted in the manner as stated in sub-paragraph (1) above and sub-paragraph (5) below;

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- (5) the aggregate volume of the connected transactions do not exceed the respective caps below (which are the same as those described in sections I to VIII above):

Type of transaction	Annual cap	
	2004 <i>RMB million</i>	2005 <i>RMB million</i>
I. Ongoing connected transactions between the Company and Weichai Factory		
1. Provision of general services by Weichai Factory to the Company	15	16
2. Supply and/or connection of utilities by Weichai Factory to the Company	135	170
3. Lease of Buildings and Equipment by Weichai Factory to the Company	43	43
4. Supply of WD615 Engines by the Company to Weichai Factory	6	7
5. Supply of finished diesel engine parts by Weichai Factory to the Company	65	93
6. Supply of semi-finished diesel engine parts by the Company to Weichai Factory	45	52
7. Provision of sales and warranty period repair services by the Company to Weichai Factory	8	8
II. Ongoing connected transactions between the Company and Chongqing Weichai		
1. Provision of general services by Chongqing Weichai to the Company	5	6
2. Supply and/or connection of utilities by Chongqing Weichai to the Company	65	90
3. Lease of Chongqing Properties by Chongqing Weichai to the Company	4	4
4. Provision of processing services by Chongqing Weichai to the Company	96	164

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Type of transaction	Annual cap	
	2004 <i>RMB million</i>	2005 <i>RMB million</i>
III. Ongoing connected transactions between the Company and the China Heavy Duty Truck Group		
1. Supply of diesel engines and finished diesel engine parts by the Company to CHDTGL and/or its associates	1,029	1,465
2. Supply of finished and semi-finished diesel engine parts by CHDTGL and/or its associates to the Company	37	45
IV. Ongoing connected transactions between the Company and Weichai Gas		
Supply of WD615 Engines and related parts by the Company to Weichai Gas	6	10
V. Ongoing connected transactions between the Company and Guangxi Liugong Machinery		
Supply of WD615 Engines and parts by the Company to Guangxi Liugong Machinery	259	287
VI. Ongoing connected transactions between the Company and Fujian Longgong		
Supply of diesel engines and parts by the Company to Fujian Longgong	76	76
VII. Ongoing connected transactions between the Company and Shanghai Longgong		
Supply of diesel engines and parts by the Company to Shanghai Longgong	198	199
VIII. Ongoing connected transactions between the Company and Weichai Deutz		
Supply of semi-finished diesel engine parts by the Company to Weichai Deutz	24	55

- (6) Weichai Factory, Chongqing Weichai, Weichai Gas and Weichai Deutz have each provided an undertaking to the Company that with respect to their respective related Ongoing Connected Transactions, for so long as the relevant counterparty remains connected person of the Company, it will provide the Company's auditors full access to its relevant records for the purpose of their review of its related Ongoing Connected Transactions; and
- (7) each of CHDTGL, Guangxi Liugong, Fujian Longgong and Shanghai Longgong has provided an undertaking to the Company that with respect to its related Ongoing Connected Transactions, for so long as the relevant counterparty remains connected person of the Company, it will provide written confirmations to the Company's auditors upon their request in relation to the relevant annual aggregate amount of its related Ongoing Connected Transactions.

The Stock Exchange has indicated that if any of the material terms of the agreements or arrangements referred to above are altered (unless as provided for under the terms of the relevant agreement or arrangement) or if the Company enters into any new agreements or arrangements with any connected persons (within the meaning of the Listing Rules) in the future under which the aggregate consideration paid or payable by the Company in each year exceeds the limits referred to above, the Company must comply with the provisions of Chapter 14 of the Listing Rules dealing with connected transactions, unless it applies for and obtains a separate waiver from the Stock Exchange.

Based on the documents and information provided by the Company and relying upon the confirmation by the Directors that the Ongoing Connected Transactions are either: (1) on normal commercial terms (or better), or (2) on terms no less favourable to the Company than those available to (or from) independent third parties and are fair and reasonable as far as the Company's shareholders as a whole are concerned, the Sponsor is of the view that the Ongoing Connected Transactions referred to under sections I to VIII above are fair and reasonable as far as the Company's shareholders as a whole are concerned and the transactions pursuant to the contracts, if applicable, described in sections I to VIII are in the ordinary and usual course of the Company's business.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Board consists of 14 Directors: including four executive Directors, one of which is the chairman, eight non-executive Directors and two independent non-executive Directors. The Directors are elected at a general meeting of the shareholders of the Company for a term of three years, renewable upon re-election and re-appointment. The functions and duties conferred on the Board include: convening general meetings and reporting its work to general meetings, implementing the resolutions of the general meetings, determining the Company's business plans and investment plans, preparing the Company's annual budgets and final accounts, preparing the Company's proposals for dividend and bonus distributions and for the increase or reduction of capital, and exercising other powers, functions and duties as conferred by the Articles of Association.

The Company Law requires a joint stock company with limited liability to establish a supervisory committee and this requirement has been incorporated into the Articles of Association. The supervisory committee is responsible for monitoring the Company's financial matters and overseeing the actions of the Board and the management of the Company. The supervisory committee consists of three Supervisors, two of which are shareholders' representatives who may be elected and removed by the shareholders in a general meeting and one of whom is a representative of the employees and was elected by them. Two of the three Supervisors are external supervisors, who are not employed at any executive position in the Company. The term of service of the Supervisors is three years, renewable upon re-election and re-appointment. The functions and powers conferred on the supervisory committee include: attending Board meetings, examining the Company's financial affairs, balance sheets, income statements, business reports, dividend distribution proposals and other financial information proposed at general meetings by the Directors from time to time and overseeing the actions of the Board and other senior management personnel of the Company in carrying out their duties.

DIRECTORS

Executive Directors

Mr. Tan Xuguang, aged 43, is the chairman of the Board and an executive Director of the Company. Mr. Tan joined the Company in 1977 and had held various positions including the deputy director of the import and export department, assistant to general manager, deputy general manager and general manager of Weichai Factory. Mr. Tan is a senior economist and holds a master's degree in 動力工程 (power engineering) from Tianjin University in 2003. Mr. Tan is the general manager of Weichai Factory and a director and a deputy general manager of CHDTGL. (Please refer to the section headed "Business – Relationship with the China Heavy Duty Truck Group" of this Prospectus for more information.) Mr. Tan is responsible for formulating the overall business development strategies for the Company.

Mr. Tan is a member of the 10th NPC. Mr. Tan received the "Outstanding Entrepreneur of the National Machinery Industry" award in 2002.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Xu Xinyu, aged 40, is an executive Director and general manager of the Company. Mr. Xu joined the Company in 1986 and had held the positions of director of corporate affairs office, director of human resources department, assistant to general manager, deputy general manager and executive deputy general manager of Weichai Factory. Mr. Xu is a senior economist and was graduated from 聊城師範學院 (Liaocheng Institute of Education) in 1986 with a bachelor's degree in science. Mr. Xu is responsible for implementing the business strategies and overseeing the operations of the Company.

Mr. Sun Shaojun, aged 38, is an executive Director and deputy general manager of the Company. Mr. Sun joined the Company in 1988 and had held the positions of assistant supervisor and supervisor of the engineering department, assistant to general manager and the chief engineer of Weichai Factory. Mr. Sun is a senior engineer and was graduated from 北京航空學院 (Beijing Aviation College) in 1988 with a master's degree in 工學 (engineering). Mr. Sun is responsible for overseeing the improvement and research and development of the Company's products and other technical matters.

Mr. Zhang Quan, aged 40, is an executive Director and deputy general manager of the Company. Mr. Zhang joined the Company in 1986 and had held the positions of directors of the quality control department, the production department and the marketing management department, assistant to general manager and deputy general manager of Weichai Factory. Mr. Zhang is an engineer and was graduated from 山東工業大學 (Shandong Industrial University) in 1986 with a bachelor's degree in 工學 (engineering). Mr. Zhang is responsible for formulating and implementing the marketing activities of the Company.

Non-executive Directors

Mr. Yeung Sai Hong, aged 50, was appointed as a non-executive Director of the Company on 18 December, 2002. Mr. Yeung is currently a director of Peterson. He is also a member of the 9th Shandong Provincial Committee of the Chinese People's Consultative Conference.

Mr. Liu Zheng, aged 56, was appointed as a non-executive Director of the Company on 18 December, 2002. Mr. Liu was graduated from 山東經濟學院 (Shandong Economics College) in auditing in 1997. He was the deputy director of the Audit Bureau of Weifang Municipality and the director of the Power Infrastructure Office of Weifang Municipality. He is the general manager of Weifang Investment.

Mr. Yao Yu, aged 33, was appointed as a non-executive Director of the Company on 18 December, 2002. He is an investment manager of Shenzhen Investment. He holds an MBA degree from the China Europe International Business School in 2000.

Mr. Li San Yim, aged 52 and a Hong Kong resident, was appointed as a non-executive Director of the Company on 18 December, 2002. He founded Fujian Longgong (a Promoter) in 1993, of which he is the chairman. Fujian Longgong is principally engaged in the manufacture and sale of, among others, wheel-loaders.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Tong Jingen, aged 41, was appointed as a non-executive Director of the Company on 18 December, 2002. Mr. Tong was the engineer of the supply office, director of quality control office of ancillary components department, and deputy director of the corporate management department of 濟汽總廠 (Jiqi Factory), director of the corporate management office of CHDTGL, manager of treasury department of 重汽銷售公司 (Jiqi Sales Company), and deputy chief economist and manager of treasury department, and he is currently the chief economist, of CHDTGL. He holds a master's degree in 工學 (engineering) from Tsinghua University in 1989.

Ms. Zhang Fusheng, aged 46, was appointed as a non-executive Director of the Company on 18 December, 2002. Ms. Zhang joined Weichai Factory in 1975. She was deputy director of audit department, director of finance department, deputy chief accountant and assistant to general manager, and she is now the chief accountant and financial controller of Weichai Factory. She is a senior accountant.

Mr. Julius G. Kiss, aged 76, was appointed as a non-executive Director of the Company on 18 December, 2002. Mr. Kiss is the chairman of IVM.

Mr. Feng Gang, aged 43, was appointed as a non-executive Director of the Company on 20 October, 2002. Mr. Feng joined Weichai Factory in 1976. He was the deputy manager of the sales department of the Jinan division of Huaxia Securities Limited and the general manager of Shandong Trust.

Independent non-executive Directors

Mr. Zhang Xiaoyu, aged 59, was appointed as an independent non-executive Director of the Company on 20 October, 2002. Mr. Zhang served as the Deputy Director of the State Mechanic Industry Bureau. He is a senior engineer enjoying professor-grade treatment. Mr. Zhang is the vice-chairman of the China Machinery Industrial Association.

Mr. Koo Fook Sun, Louis, aged 47, was appointed as an independent non-executive Director of the Company on 20 October, 2002. Mr. Koo is the managing director of Hercules Capital Limited and was the managing director and head of the corporate finance department of ABN AMRO Asia Corporate Finance Limited, a director and chief executive officer of Silvernet Group Limited (listed on the Stock Exchange) and an executive director of 401 Holdings Limited (listed on the Stock Exchange). Mr. Koo is a certified public accountant of the US and Hong Kong and graduated from the University of California at Berkeley with a bachelor's degree in business administration in 1980.

Supervisors

Mr. Sun Chengping, aged 56, is the chairman of the supervisory committee of the Company. He joined Weichai Factory in 1969 and was the refinement workshop supervisor, deputy general manager of Weichai Factory. Mr. Sun is a senior economist.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Wang Yong, aged 40, is a Supervisor of the Company. Mr. Wang joined Weichai Factory in 1984. He was the deputy director of production engineering department, director of engineering equipment department, deputy manager of the power branch, director of the corporate culture office of Weichai Factory and the director of the corporate affairs office of the Company. Mr. Wang is a senior engineer and was graduated from 上海交通大學 (Shanghai Transportation University) with a bachelor's degree in 工學 (engineering) in 1984.

Ms. Jiang Jianfang, aged 41, is a Supervisor of the Company. She is the deputy chief of the financial audit committee of Guangxi Liugong and a supervisor of 廣西柳工機械股份有限公司 (Guangxi Liugong Machinery Company Limited, a company listed on the Shenzhen Stock Exchange). Ms. Jiang is an accountant.

Senior management

Mr. Liu Huisheng, aged 38, is the general manager of the Chongqing office of the Company. He joined the Company in 1989 and was a deputy general manager of the power branch and assistant to general manager of Weichai Factory. Mr. Liu holds a bachelor's degree.

Mr. Dong Dekuai, aged 39, is the supervisor of the engineering department of the Company. He joined the Company in 1985 and was the assistant to supervisor, deputy supervisor and supervisor of the engineering department, deputy chief engineer and chief designer of Weichai Factory. Mr. Dong is a senior engineer and holds a bachelor's degree.

Mr. Wu Hongwei, aged 37, is the director of the finance department of the Company. He joined the Company in 1991 and was the assistant to director, deputy director and executive deputy director of the finance department of Weichai Factory and the chief accountant of Chongqing Weichai. Mr. Wu holds a bachelor's degree.

Mr. Ding Yindong, aged 35, is the director of the human resources department of the Company. He joined the Company in 1990 and was the assistant to director of the marketing management department and deputy director of the corporate planning department and director of human resources department of Weichai Factory. Mr. Ding is an economist and holds a bachelor's degree.

Mr. Han Lisheng, aged 39, is the director of the planning and development department of the Company. He joined the Company in 1982 and was the director of the economic planning division of deputy director and director of the corporate planning department of Weichai Factory.

Mr. Feng Gang, aged 40, is the deputy director of the marketing department of the Company. He joined the Company in 1986 and was assistant to general manager of sales company and executive deputy general manager of market management department of Weichai Factory. Mr. Fung is an engineer and holds a bachelor's degree.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Zhang Yuanfu, aged 40, is the chief financial officer and company secretary of the Company and is responsible for the accounting and finance functions and secretary affairs of the Company. Mr. Zhang graduated from Shandong University and holds a bachelor's degree in economics. Mr. Zhang is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associated member of the Hong Kong Society of Accountants. Prior to joining the Company in September 2003, Mr. Zhang has worked for a number of listed companies in Hong Kong main board and the GEM board markets and has more than 17 years of experience in accounting and financial management.

Mr. Dai Lixin, aged 36, is the secretary to the Board and director of the securities department of the Company. He joined the Company in 1987 and deputy director of the treasury department of Weichai Factory. Mr. Dai is an economist and a university graduate.

Rule 8.12 and Rule 19A.17 requirements

According to Rule 8.12 and Rule 19A.17 of the Listing Rules, an issuer must have sufficient management presence in Hong Kong which normally means that at least two of the issuer's executive directors must be ordinary residents in Hong Kong. Since the operation of the Company is in the PRC, the Company does not and, for the foreseeable future, will not have a management presence in Hong Kong. Currently, substantially all of the Directors reside in the PRC. Accordingly, the Company has applied to the Stock Exchange for a waiver under Rule 8.12 and Rule 19A.17 of the Listing Rules. The Company has internal arrangements to maintain effective communication between the Company and the Stock Exchange.

AUDIT COMMITTEE

The Company established an audit committee on 20 October, 2003 and defined the committee's terms of reference in writing in compliance with the Code of Best Practice as set out in appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Board. Currently, the audit committee has two members, comprising the two independent non-executive directors of the Company.

DIRECTORS' AND SUPERVISORS' COMPENSATION SYSTEM

The Directors' and Supervisors' compensation system links the economic benefits of the Directors and Supervisors to the operating results of the Company. Under the system, executive Directors and Supervisors who hold executive positions in the Company are mainly remunerated by way of annual salary, while non-executive Directors and other Supervisors only receive a nominal allowance. Independent non-executive Directors receive an annual director's fee. In addition, appropriate bonus will be paid to the executive Directors and Supervisors based on the operating results of the Company.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS AND SUPERVISOR'S COMPENSATIONS

Directors and Supervisors of the Company receive compensations in the form of salaries, retirement plan contributions, and other allowances and benefits. The Company does not provide any retirement plan or retirement scheme contributions for those Directors and Supervisors who are not employees of the Company. The Company has entered into service contracts with each of the executive Directors, commencing 24 November, 2003 and ending on 17 December, 2005. It is stipulated in these contracts that the remunerations to be paid by the Company to each of the Directors include an annual basic salary and a year-end bonus at the Company's discretion.

The aggregate amount of salaries and other allowances, retirement benefits scheme contributions and benefits in kind paid by the Company to the employees of the Company during each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003 were approximately RMB84,556,000, RMB132,706,000 and RMB164,950,000, respectively, which accounted for approximately 9.9%, 7.1% and 4.6% of the Company's turnover, respectively for those periods.

The aggregate amount of salaries and other allowances, retirement benefits scheme contributions and benefits in kind paid by the Company to its Directors during each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003 were approximately RMB106,000, RMB127,000 and RMB1,799,000, respectively, which accounted for approximately 0.01%, 0.01% and 0.05% of the Company's turnover, respectively for those periods. The Company increased its number of Directors from four in 2002 to 14 in 2003 and the Directors' total annual remuneration increased by an amount of approximately RMB1,672,000. During the Track Record Period, the turnover and net profit after tax of the Company increased by approximately 315.1% and 253.4%, respectively and the Directors' remunerations represented only approximately 0.1% and 0.7% of the turnover and net profit after tax for the year ended 31 December, 2003 respectively.

The eight non-executive Directors were paid remuneration of RMB400,000 in aggregate for the year ended 31 December, 2003.

Pursuant to the respective letters of appointment of the independent non-executive Directors, the annual director's fees payable to Zhang Xiaoyu and Koo Fook Sun, Louis for the year ending 31 December, 2004 will amount to approximately RMB246,000 in aggregate.

Save as disclosed above, no other payments have been paid or are payable to the Directors by the Company in respect of the three years ended 31 December, 2003.

The Company will pay aggregate annual remuneration of RMB160,000 to the three Supervisors for the year ending 31 December, 2004.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Under the arrangements currently in force, the Company estimates that the aggregate remuneration (including salaries and allowance, but excluding any bonus) of the Directors and Supervisors payable by the Company for the year ending 31 December, 2004 will be approximately RMB2,174,000.

The aggregate amount of salaries and other allowances, retirement benefits scheme contributions and benefits in kind paid by the Company to its Supervisors during each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003 was approximately RMB46,000, RMB79,000 and RMB165,000, respectively.

SENIOR MANAGEMENT BONUS SCHEME

The Company has established a reward scheme for its senior management. Under this scheme, up to 5% of the audited annual net profit after tax of the Company will be paid as bonus to the executive Directors and the senior management each year.

EMPLOYEES

As at the Latest Practicable Date, the Company had 5,162 employees in total. The table below sets forth a breakdown of the Company's employees by functions.

Function	Number of Employees	Percentage of total (%)
Production	3,678	71.3
Technical Support	509	9.9
Purchasing and Sales	432	8.4
Research and Development	141	2.7
Administration and Management	402	7.7
Total	<u>5,162</u>	<u>100</u>

The human resources department of the Company is responsible for the recruitment, training and management of its employees. The Company conducts monthly and annual appraisals of its senior executives, the result of which form the basis for the review of their remuneration package.

All the Company's employees also participate in a mandatory pension scheme. Pursuant to such scheme, an employer and its employees are required to make annual contributions of an amount equivalent to 20% and 6%, respectively of the total payroll of the employees. Starting from May 2003, the contribution rate of the employees has been adjusted to 7% of their salaries.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the contributions made by the Company under the above pension scheme were approximately RMB12,923,000, RMB17,581,000 and RMB22,614,000 respectively.

As substantially all of the Company's current operations are conducted in the PRC, the Directors have confirmed that the Company has complied, and will continue to comply, with all the relevant laws, regulations and requirements in the PRC in relation to child protection, labour protection and work environment.

SHARE CAPITAL

SHARE CAPITAL

Assuming the Over-allotment Option is not exercised, the share capital of the Company immediately following completion of the Offering will be as follows:

		Nominal value (RMB)	Approximate percentage of issued share capital (%)
170,750,000	Domestic Shares in issue	170,750,000	54.21
34,250,000	Foreign Shares in issue	34,250,000	10.87
H Shares under the Offering:			
99,000,000	– To be offered under the Placing (subject to adjustment and the Over-allotment)	99,000,000	31.43
11,000,000	– To be offered under the Public Offer (subject to adjustment)	11,000,000	3.49
		<u>315,000,000</u>	<u>100.00</u>

ASSUMPTIONS

If the Over-allotment Option is exercised in full, the issued share capital of the Company immediately after the completion of the Offering would comprise 203,500,000 Promoter Shares (comprising Domestic Shares and Foreign Shares) and 126,500,000 H Shares which would represent approximately 61.67% and 38.33%, respectively of the entire issued share capital of the Company.

SUBSTANTIAL SHAREHOLDERS AND PROMOTERS

In so far as the Directors and the chief executive of the Company are aware, immediately following completion of the Offering (assuming the Over-allotment Option is not exercised), Weichai Factory and CHDTGL will be the only persons directly or indirectly interested in 10% or more of the entire issued share capital (including, for the avoidance of doubt, Domestic Shares, Foreign Shares and H Shares) of the Company:

Name	Number of Domestic Shares held	Approximate percentage of shareholding (%)
Weichai Factory (<i>Notes 1 and 3</i>)	78,796,000	25.01
CHDTGL (<i>Notes 1 and 3</i>)	78,796,000	25.01

If the Over-allotment Option is fully exercised, Weichai Factory and CHDTGL will be interested in the issued share capital of the Company as follows:

Name	Number of Domestic Shares held	Approximate percentage of shareholding (%)
Weichai Factory (<i>Notes 1 and 3</i>)	77,647,900	23.53%
CHDTGL (<i>Notes 1 and 3</i>)	77,647,900	23.53%

SUBSTANTIAL SHAREHOLDERS AND PROMOTERS

So far as the Directors are aware, immediately following the completion of the Offering (and assuming the Over-allotment is not exercised), the shareholdings of the Promoters (in the Company's entire issued share capital, including, for the avoidance of doubt, Domestic Shares, Foreign Shares and H Shares) are set out below:

Name of Promoter	Number of Domestic Shares/ Foreign Shares held	Approximate percentage of share capital (%)	Restriction on transfer of Promoter Shares under the PRC Law (Note 3)
<i>Domestic Shares:</i>			
Fujian Longgong	21,500,000	6.83	Yes
Shandong Trust	10,000,000	3.17	Yes
24 natural persons (Note 2)	14,800,000	4.70	Yes
<i>Foreign Shares:</i>			
IVM	10,750,000	3.41	Yes
Peterson	23,500,000	7.46	Yes
<i>Stated-owned Domestic Shares (Note 3):</i>			
Weichai Factory	78,796,000	25.01	Yes
Weifang Investment	19,597,000	6.22	Yes
Guangxi Liugong	4,557,000	1.45	Yes
Shenzhen Investment	21,500,000	6.83	Yes

Immediately following completion of the Offering, the Promoters will own in aggregate approximately 65.08% of the Shares (including, for the avoidance of doubt Domestic Shares, Foreign Shares and H Shares), assuming that the Over-allotment Option is not exercised, or approximately 61.67% of the Shares (including, for the avoidance of doubt, Domestic Shares, Foreign Shares and H Shares), assuming that the Over-allotment Option is fully exercised. For details, please refer to the section headed "Share capital" of this Prospectus.

SUBSTANTIAL SHAREHOLDERS AND PROMOTERS

If the Over-allotment Option is exercised in full, the interests of the Promoters in the entire issued share capital (including, for the avoidance of doubt, Domestic Shares, Foreign Shares and H Shares) of the Company will be as follows:

Name of Promoter	Number of Domestic Shares/ Foreign Shares	Approximate percentage of share capital (%)	Restriction on transfer of Promoter Shares under the PRC Company Law (Note 4)
<i>Domestic Shares:</i>			
Fujian Longgong	21,500,000	6.52	Yes
Shandong Trust	10,000,000	3.03	Yes
24 natural persons (Note 2)	14,800,000	4.48	Yes
<i>Foreign Shares:</i>			
IVM	10,750,000	3.26	Yes
Peterson	23,500,000	7.12	Yes
<i>Stated-owned Domestic Shares (Note 3):</i>			
Weichai Factory	77,647,900	23.53	Yes
Weifang Investment	19,311,550	5.85	Yes
Guangxi Liugong	4,490,550	1.36	Yes
Shenzhen Investment	21,500,000	6.52	Yes

- Note:*
1. Weichai Factory is wholly owned by CHDTGL. For further information concerning CHDTGL, please refer to the paragraph headed “Relationship with the China Heavy Duty Truck Group” in the section headed “Business” of this Prospectus.
 2. The 24 natural persons are Tan Xuguang, Xu Xinyu, Zhang Quan, Sun Shaojun, Liu Huisheng, Tong Dehui, Sun Xueke, Chen Songdong, Ding Yingdong, Dai Lixin, Han Lisheng, Feng Gang, Zhong Genghui, Wang Yong, Ma Yuxian, Liu Yuanqiang, Wang Changliang, Wang Xiaoying, Li Honggang, Li Jiajia, Wu Hongwei, Yu Rushui, Wang Tongtai and Wang Fengyi.
 3. According to the “Provisional Administrative Measures for the Reduction of State Shares and the Raising of the Social Security Fund” promulgated by the State Council on 12 June, 2001, all joint stock limited companies with State-owned shares in issue are required to sell State-owned shares to the extent of 10% of the funds raised by such joint stock limited companies in their initial public offerings or subsequent share offerings to the public for 全國社會保障基金 (the National Social Security Fund) of the PRC. Therefore, Weichai Factory, Weifang Investment and Guangxi Liugong, together holding 112,950,000 State-owned Domestic Shares prior to the Offering, will sell 7,654,000, 1,903,000 and 443,000 State-owned Domestic Shares, respectively in the Offering (assuming that the Over-allotment Option is not exercised) and will sell 8,802,100, 2,188,450, and 509,450 State-owned Domestic Shares, respectively (assuming that the Over-allotment Option is exercised in full). The NSSF Council has directed the Company to sell such State-owned Domestic Shares and submit the net proceeds from the sale of such State-owned Domestic Shares to the NSSF Council. Prior to the disposal of the State-owned Domestic Shares by the Company at the direction of the NSSF Council, the above-mentioned State-owned Domestic Shares are still registered in the names of the Selling Shareholders.

SUBSTANTIAL SHAREHOLDERS AND PROMOTERS

4. Under the PRC Company Law, no Promoter Shares shall be transferred within three years after the incorporation of the Company. Since the Company was established in the PRC as a joint stock limited company on 23 December, 2002, the Promoter Shares shall not be transferrable until 22 December, 2005.

All existing Domestic Shares and Promoter Foreign Shares are held by the Promoters as Promoter Shares.

Pursuant to article 147 of the PRC Company Law, any transfer of Shares by a Promoter, Director, Supervisor or general manager of the Company, is subject to the following restrictions:

- (i) none of the Promoters may transfer its Promoter Shares during a period of three years from the date of incorporation of the Company, such three-year period is due to expire on 22 December, 2005; and
- (ii) each of the Directors, Supervisors and general manager of the Company is required to notify the Company of the Shares in which he/she is interested during such time as he/she remains in office and shall not dispose of any of such Shares during the same period.

LEGAL STATUS OF PROMOTER FOREIGN SHARES

Set out below is a summary of the legal opinion of Zhong Lun Law Firm, legal advisers to the Company as to PRC law, on the rights attached to Promoter Foreign Shares.

Although the Mandatory Provisions provide for the definitions of “domestic shares”, “foreign shares” and “overseas listed foreign shares” (which definitions have been adopted in the Articles of Association), the rights attached to Promoter Foreign Shares (which are subject to certain restrictions on transfer as referred to in this Prospectus and may become H Shares upon obtaining the requisite approvals from, among other bodies, the CSRC and the Stock Exchange) are not expressly provided for under the existing PRC laws or regulations. However, the creation and the subsistence of the Promoter Foreign Shares do not contravene any PRC laws or regulations.

At present, there are no PRC laws or regulations governing the definition and legal status of the Promoter Foreign Shares. The Company’s PRC legal advisers have advised that until new laws or regulations are introduced in this respect, holders of Promoter Foreign Shares will be treated as if they are in the same class as the holders of Domestic Shares (in particular, in respect of the rights to receive notice of general meetings and class meetings and to attend and vote at such meetings), except that holders of Promoter Foreign Shares enjoy the following additional rights:

- (a) to receive dividends declared by the Company in foreign currencies; and
- (b) in the event of the winding up of the Company, to remit their respective shares in the remaining assets (if any) of the Company in foreign currencies out of the PRC in accordance with the applicable foreign exchange laws and regulations in the PRC.

SUBSTANTIAL SHAREHOLDERS AND PROMOTERS

No provision is made for the settlement of disputes between holders of Promoter Foreign Shares and holders of Domestic Shares in the Mandatory Provisions or the Articles of Association. According to the existing PRC laws and regulations, in the case of disputes between holders of Promoter Foreign Shares and holders of Domestic Shares, if no settlement after negotiation or mediation can be reached among themselves, either party could choose an arbitration institution in the PRC or Hong Kong to conduct arbitration for dispute resolution pursuant to a written arbitration agreement; if there is no prior arbitration agreement and the parties are not able to reach an agreement to arbitrate their disputes, either party could bring suit in the PRC courts with competent jurisdiction.

According to the requirements under clause 163 of the Mandatory Provisions and article 190 of the Articles of Association, in general, disputes between holders of H Shares and holders of Domestic Shares are required to be settled through arbitration. Such dispute resolution requirements are equally applicable to disputes between holders of H Shares and holders of Promoter Foreign Shares.

At present, there are no specific approval procedures under the applicable PRC laws and regulations governing the conversion of Foreign Shares into H Shares. As advised by the Company's PRC legal advisers, the following conditions must be satisfied before the Promoter Foreign Shares (forming part of the Promoter Shares) can be converted into H Shares with a listing on the Stock Exchange:

- (a) a period of three years must have elapsed from the date on which the Company was established as a joint stock limited company;
- (b) the approvals from the original approving authority or authorities in the PRC for the establishment of the Company being obtained by IVM or Peterson for the conversion of their respective Promoter Foreign Shares into H Shares after the expiry of the three-year restriction period for any transfer of the Promoter Shares, including the Promoter Foreign Shares (in the case of the Company, the three-year restriction period will end on 22 December, 2005);
- (c) the approval from the CSRC being obtained by the Company for the conversion of the Promoter Foreign Shares into H Shares;
- (d) approval being granted by the Stock Exchange for listing of and permission to deal in the new H Shares converted from the Promoter Foreign Shares;
- (e) approval being obtained from the shareholders at a general meeting of the Company and holders of the H Shares and the Domestic Shares (including Promoter Foreign Shares) at their respective class meetings to authorise the conversion of the Promoter Foreign Shares into H Shares in accordance with the Articles of Association; and
- (f) full compliance with relevant PRC laws, rules, regulations and regulatory documents governing companies incorporated in the PRC seeking permission to list their shares outside the PRC and with the Articles of Association and any agreement among the shareholders of the Company.

SUBSTANTIAL SHAREHOLDERS AND PROMOTERS

When all of the conditions mentioned above and other conditions as may be imposed from time to time by the Stock Exchange have been satisfied, Promoter Foreign Shares can be converted into H Shares with a listing on the Stock Exchange.

Each of Peterson and IVM, being holders of Promoter Foreign Shares, has confirmed to the Company and the Stock Exchange that it understands that its legal positions, rights and obligations, as holder of Promoter Foreign Shares are as referred to above, and has undertaken to the Company and the Stock Exchange that it will procure that its transferee (if any) of Promoter Foreign Shares will provide a similar undertaking to the Company and the Stock Exchange.

Investors should note that if all the Promoter Foreign Shares are converted into new H Shares, the total number of H Shares will increase by approximately 10.87% of the issued Shares immediately after completion of the Offering (assuming that the Over-allotment Option is not exercised) and the price of H Shares may be adversely affected as a result.

RANKING

The Domestic Shares, Foreign Shares and H Shares are all ordinary Shares in the share capital of the Company. However, Promoter Foreign Shares and H Shares may only be subscribed for in a currency other than Renminbi by any legal or natural person in Hong Kong, the Special Administration Region of Macau, Taiwan or any other country other than the PRC. The Domestic Shares must be subscribed for and traded in Renminbi. All dividends in respect of H Shares are to be paid by the Company in Hong Kong dollars, whereas all dividends in respect of the Domestic Shares are to be paid by the Company in Renminbi. Dividends in respect of Promoter Foreign Shares can be paid in Renminbi.

All existing Promoter Shares are held by the Promoters. According to the applicable laws and regulations, Promoter Shares (other than those converted into H Shares pursuant to the Regulations for the Reduction of State Shares) may not be sold within a period of three years from the date of establishment of the Company. The Domestic Shares (other than those converted into H Shares pursuant to the Regulations for the Reduction of State Shares), comprising the Promoter Shares, have not and will not be admitted for listing on any stock exchange within the above period of three years. No arrangement has been made for the Promoter Shares (other than those converted into H Shares pursuant to the Regulations for the Reduction of State Shares) to be traded or dealt with on any other stock exchange or authorised trading facility in the PRC.

In connection with the Promoter Foreign Shares, there is no provision in the Articles specifying whether or not such Shares constitute a separate class of Shares in the Company.

SUBSTANTIAL SHAREHOLDERS AND PROMOTERS

The Promoters Shares (including Promoter Foreign Shares) are transferable after the expiration of a period of three years from the date of establishment of the Company. According to the advice provided by the Company's PRC legal adviser, where holders of the Promoter Foreign Shares intend to convert the Promoter Foreign Shares into H Shares, he/she has to obtain the prior approvals and follow the procedures set out in the section headed "Legal status of Promoter Foreign Shares" above.

Except as described above and in relation to the despatch of notices and financial reports to shareholders, dispute resolution, registration of Shares on different parts of the registers of shareholders, the method of Share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarised in appendix IV to this Prospectus, the Domestic Shares, the H Shares and the Promoter Foreign Shares will rank *pari passu* with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this Prospectus. However, the dividends of H Shares will be paid in Hong Kong dollars. The transfer of Promoter Shares is subject to such restrictions as PRC law may impose from time to time.

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INDEBTEDNESS

Borrowings and banking facilities

At the close of business on 31 December, 2003, being the last practicable date for the purpose of this indebtedness statement prior to the printing of this document, the Company had outstanding borrowings of approximately RMB1,286.7 million. The borrowings comprised amounts due to related parties of approximately RMB219.7 million, bills payables of approximately RMB915.3 million and unsecured bank borrowings of approximately RMB151.7 million.

As at 31 December, 2003, the Company had banking facilities of approximately RMB1,048.3 million for bills payable.

CONTINGENT LIABILITIES

As at 31 December, 2003, the Company had no material contingent liabilities.

As at 31 December, 2003, the Company's banking facilities were secured by pledged bank deposits and bills receivable of approximately RMB391.6 million and RMB77.1 million respectively.

DEBT SECURITIES

As at 31 December, 2003, the Company had no debt securities outstanding.

Capital commitments

As at 31 December, 2003, the Company had capital commitments contracted but not provided for in respect of acquisition of property, plant and equipment and trademarks of approximately RMB208.3 million and RMB124.4 million, respectively.

Foreign currency amounts have been translated into Renminbi at the exchange rates prevailing at the close of business on 31 December, 2003.

Other commitments

As at 31 December, 2003, the Company had commitments contracted but not provided for in respect of the development of technologies of approximately RMB41.3 million.

Disclaimer

Save as aforesaid or as otherwise disclosed herein, the Company did not have, at the close of business on 31 December, 2003, any outstanding loan capital issued and outstanding or agreed to be issued, bank overdraft, loan or other similar indebtedness, liabilities under acceptance or acceptable credit, debenture, mortgage, charge, hire purchases commitment, guarantee or other material contingent liability.

FINANCIAL INFORMATION

NO MATERIAL CHANGE

Save as disclosed above, the Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Company since 31 December, 2003.

DISCLOSURE UNDER PRACTICE NOTE 19

The Directors have confirmed that they were not aware of any circumstances which would give rise to a disclosure requirement under Practice Note 19 of the Listing Rules.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31 December, 2003, the Company had current assets of approximately RMB1,667.9 million, current liabilities of approximately RMB1,603.2 million and net current assets of approximately RMB64.7 million. Current assets comprised inventories of approximately RMB279.9 million, trade debtors of approximately RMB230.3 million, bills receivable of approximately RMB394.2 million, deposits, prepayments and other debtors of approximately RMB33.7 million, pledged bank deposits of RMB391.6 million and bank balances and cash of approximately RMB338.2 million.

As at 31 December, 2003, the Company's current liabilities were approximately RMB1,603.2 million, comprising trade creditors of approximately RMB409.9 million, bills payable of approximately RMB915.3 million, other creditors and accruals of approximately RMB95.6 million, amount due to a related party of approximately RMB45.4 million (over RMB43.6 million of which represents part of the Technologies Consideration (see section headed "Business – Relationship with Weichai Factory – Transfer of technologies" for details)), tax payable of approximately RMB105.3 million and bank borrowings of approximately 31.7 million.

Capital structure

The gearing ratio* of the Company was 33.3%, 21.5% and 6.4% as at 31 December, 2001, 2002 and 2003, respectively. The gearing ratio decreased by 80.8% throughout the Track Record Period mainly because of the increase in the capital base of the Company resulting from the Reorganisation and the injection of equity capital. Shareholders' equity increased from approximately RMB95.2 million as at 31 December, 2001 to approximately RMB474.5 million as at 31 December, 2003. On the other hand, the borrowing of the Company during the Track Record Period remained relatively stable as compared with the increase in shareholders' equity. The bank loans of the Company as at 31 December, 2001, 2002 and 2003 were approximately RMB151.6 million, RMB151.7 million and RMB151.7 million, respectively, which were mainly used to finance the Company's daily operation.

* *Gearing ratio = Total debts/Total assets.*

FINANCIAL INFORMATION

Working capital

The Directors are of the opinion that, taking into account the Company's internally generated funds, the presently available banking facilities and the estimated net proceeds of the Offering (assuming that the Over-allotment Option is not exercised), the Company has sufficient working capital for its present requirements.

FOREIGN EXCHANGE EXPOSURE

The Company is required to pay dividends on H Shares by foreign currency. In accordance with the current foreign exchange regulations of the PRC, the Company may conduct foreign exchange transactions through its current account, including payment of dividends, without the need to provide any relevant commercial evidential documents for SAFE's approval in advance, provided that such transactions must be conducted through a PRC bank authorised to deal with foreign exchange transactions.

Under the current foreign exchange system in China, the Company is not able to hedge effectively against currency risk, including future depreciation of the Renminbi. Any depreciation in value of Renminbi versus US dollar and Euro could affect the ability of the Company to pay dividends in foreign currency and the ability of the Company to import equipment and materials. Please refer to the section headed "Risk factors – Risks relating to the PRC – Changes in the foreign exchange regulations" and "Risk factors – Risks relating to the PRC – Fluctuation of the Renminbi" for details of the Company's foreign exchange risk exposure.

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TRADING RECORD

The table below sets out a summary of the results of the Company for the Track Record Period, prepared in accordance with Hong Kong GAAP, as extracted from the accountants' report set out in appendix I to this Prospectus.

	Year ended 31 December,		
	2001	2002	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	856,581	1,880,368	3,555,670
Cost of sales	(644,445)	(1,454,318)	(2,695,351)
Gross profit	212,136	426,050	860,319
Other operating income	3,316	12,773	31,250
Distribution expenses	(26,214)	(66,383)	(197,660)
Administrative expenses	(91,415)	(132,078)	(160,770)
Research and development expenses	(2,937)	(3,833)	(39,412)
Other operating expenses	(2,088)	(2,152)	(7,809)
Profit from operations	92,798	234,377	485,918
Finance costs	(10,098)	(9,700)	(30,425)
Profit before taxation	82,700	224,677	455,493
Taxation	(4,188)	(57,132)	(178,025)
Profit for the year	<u>78,512</u>	<u>167,545</u>	<u>277,468</u>
Dividend	<u>–</u>	<u>–</u>	<u>20,439</u>
Basic earnings per share (in RMB)	<u>0.98</u>	<u>2.01</u>	<u>1.29</u>
Weighted average number of shares	<u>80,000,000</u>	<u>83,328,767</u>	<u>215,000,000</u>

Prior to the formation of the Company on 23 December, 2002, the assessable profit of the business of the Company* was reduced by tax losses of other divisions of Weichai Factory. Had tax been payable based on the PRC income tax rate of 33% on the assessable profit of the business of the Company*, the results of the Company for the Track Record Period would have been impacted as follows:

Profit for the year	78,512	167,545	277,468
Less: Notional taxation	(25,717)	(34,353)	–
Pro forma adjusted profit for the year	<u>52,795</u>	<u>133,192</u>	<u>277,468</u>

* The manufacture and sale of WD615 and WD618 Engines

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In the year ended 31 December, 2003, the Company entered into certain agreements with various companies within the China Heavy Duty Truck Group in relation to the provision of a range of services and other transactions which are required or requested by the relevant parties. Had such agreements been effective at the beginning of and throughout the Track Record Period, the results of the Company would have been a loss of approximately RMB22,037,000 for the year ended 31 December, 2001 and a profit of approximately RMB74,010,000 and RMB293,241,000 for the years ended 31 December, 2002 and 31 December, 2003, respectively.

For details of other information of the trading record of the Company, please refer to the section headed “Financial information”, the accountants’ report set out in appendix I and the additional financial information set out in appendix II to this Prospectus.

ANALYSIS OF TURNOVER BY PRODUCT APPLICATION

The following table shows an analysis of the sales of the Company by product application for the three years ended 31 December, 2003:

	Year ended 31 December,					
	2001		2002		2003	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Heavy-duty vehicles	423,370	49.4	1,024,066	54.4	1,951,520	54.9
Construction machines	355,553	41.5	716,400	38.1	1,380,644	38.8
Vessels	32,485	3.8	59,633	3.2	56,194	1.6
Coaches	–	–	1,189	0.1	42,172	1.2
Power generators	17,976	2.1	15,235	0.8	25,126	0.7
Others	27,197	3.2	63,845	3.4	100,014	2.8
	<u>856,581</u>	<u>100.0</u>	<u>1,880,368</u>	<u>100.0</u>	<u>3,555,670</u>	<u>100.0</u>

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the financial information contained in the accountants’ report set out in appendix I to this Prospectus.

Overview

Over the three years ended 31 December, 2003, the Company achieved continuous growth in turnover and profitability due to the growing demand for heavy-duty diesel engines as a result of the strong growth in the heavy-duty vehicles and construction machines industries in the PRC. Turnover grew from approximately RMB856.6 million in 2001 to approximately RMB3,555.7 million in 2003, representing an increase of approximately 315.1%. Net profit for the year (after adjustment for notional taxation) grew from approximately RMB52.8 million in 2001 to approximately RMB277.5 million in 2003, representing an increase of approximately 425.6%. For the same period, the Company’s operating profit margin grew from approximately 10.8% to 13.7%.

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Turnover

The Company is principally engaged in the manufacture and sale of WD615 and WD618 Engines for use in heavy-duty vehicles, construction machines, vessels, coaches and power generators. Substantially all of the Company's sales are conducted in the PRC.

Year ended 31 December, 2001 compared to year ended 31 December, 2002

The Company's turnover increased by approximately 119.5% from RMB856.6 million in 2001 to RMB1,880.4 million in 2002. The growth in sales was the result of a growing demand in the heavy-duty vehicles and construction machines industries for the Company's products due to the strong economic growth in the PRC, and the PRC Government began to develop the northwestern region of the PRC and the investments in various infrastructure projects, such as the Three Gorges Dam Project and the West-East Pipeline Project by the PRC Government. The Company sold approximately 43,000 units of its diesel engines in 2002, compared to approximately 19,700 units in 2001, representing an increase of approximately 118.3%. During the same period, the average selling prices of the Company's diesel engines remained stable.

Year ended 31 December, 2002 compared to year ended 31 December, 2003

The Company's turnover increased by approximately 89.1% from RMB1,880.4 million in 2002 to RMB3,555.7 million in 2003. The increase in unit sales of diesel engines was mainly generated from the increased demand of the heavy-duty vehicles and construction machines sectors as a result of the strong economic growth in the PRC as GDP grew by 9.1% in 2003, as well as the continuous growth in the development of road systems and various infrastructure projects, such as the Three Gorges Dam Projects, the West Pipeline Project, the Olympic Game Project, carried out by the PRC Government in recent years. The increase in sales in 2003 was also attributable to the Company's increase in effort on advertising and promotion as well as more sales discounts granted to major customers as compared with the previous period. The Company sold approximately 80,400 units of its diesel engines in 2003, compared with 43,000 units in 2002, while the unit selling prices of the Company's diesel engines remained stable.

Cost of sales

Cost of sales includes the costs of raw materials and Out-sourced parts, direct labor costs and manufacturing overheads. Of these, the costs of raw materials and Out-sourced parts are the largest cost components of the Company.

Year ended 31 December, 2001 compared to year ended 31 December, 2002

Cost of sales of the Company increased by approximately 125.7% from RMB644.4 million in 2001 to RMB1,454.3 million in 2002. The increase in cost of sales was mainly due to the increase in material costs from RMB598.7 million in 2001 to RMB1,370.4 million in 2002. The percentage increase in cost of sales was higher than the percentage increase in turnover during the same period due to a slight increase in the purchase costs of raw materials and Out-sourced parts, because the Company imported more Out-sourced parts from overseas in order to improve its products' quality and the prices for such parts were higher than those sourced domestically. As a result, costs of raw materials and Out-sourced parts as a percentage of cost of sales increased from approximately 92.9% in 2001 to approximately 94.2% in 2002.

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Year ended 31 December, 2002 compared to year ended 31 December, 2003

Cost of sales of the Company increased by approximately 85.3%, from approximately RMB1,454.3 million in 2002 to approximately RMB2,695.4 million in 2003. Such increase was mainly due to the increase in materials costs from approximately RMB1,370.4 million in 2002 to approximately RMB2,383.6 million in 2003 as a result of the increase in sales of diesel engines. Starting from 2003, the Company paid technologies fee of RMB57.0 million and rental of RMB23.1 million for the lease of the Buildings and Equipment. However, total costs of sales as a percentage of turnover in 2003 decreased to approximately 75.8% as compared with approximately 77.3% for the year 2002. This decrease was primarily due to the cost efficiency achieved by the Company as a result of self-manufacturing some of the semi-finished diesel engine parts by using the Buildings and Equipment, rather than purchasing the same from Weichai Factory.

Gross profit

Year ended 31 December, 2001 compared to year ended 31 December, 2002

As a result of the factors mentioned in the sub-paragraphs headed “Turnover” and “Cost of sales” above, the Company’s gross profit increased by approximately 100.9% from approximately RMB212.1 million in 2001 to approximately RMB426.1 million in 2002. Gross profit margin decreased from approximately 24.8% to approximately 22.7% in 2003, as the Company imported more Out-sourced parts from overseas in order to improve its products’ quality and the prices for such parts were higher than those sourced domestically.

Year ended 31 December, 2002 compared to year ended 31 December, 2003

As a result of the factors mentioned in the sub-paragraphs headed “Turnover” and “Cost of sales” above, the Company’s gross profit margin increased from approximately 22.7% in 2002 to approximately 24.2% in 2003. The slight percentage increase was due to the decrease in cost of sales as a percentage of turnover in 2003 as mentioned in the sub-paragraph headed “Cost of sales” above.

Other operating income

Year ended 31 December, 2001 compared to year ended 31 December, 2002

The amount of the Company’s other operating income was small. The largest item was an amount of approximately RMB8.2 million, representing the aggregate of the amounts waived by certain of the Company’s creditors in 2002. The relevant creditors agreed to waive such amounts after the negotiations between the Company and such suppliers regarding the quality of their supplies and pricing of certain purchases made in previous years. The invoice amounts that the suppliers agreed to waive were recorded as other income under Hong Kong GAAP.

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Year ended 31 December, 2002 compared to year ended 31 December, 2003

Other operating income increased by approximately 144.5% from RMB12.8 million to RMB31.3 million. The increase was mainly due to the increase in the gain on sales of scrap and other materials by an amount of approximately RMB15.1 million.

Distribution expenses

The Company's distribution expenses comprise mainly staff costs, warranty expenses, transportation, advertising, trademark fee and repairs and maintenance.

Year ended 31 December, 2001 compared to year ended 31 December, 2002

Distribution expenses of the Company increased by approximately 153.4% from approximately RMB26.2 million in 2001 to approximately RMB66.4 million in 2002. As a percentage of turnover, distribution expenses increased from approximately 3.1% in 2001 to approximately 3.5% in 2002. This increase was due to the increase in staff headcount in the Company's sales teams, and advertising and transportation expenses in order to promote further growth in revenue with reference to the market demand. In addition, a provision for bad and doubtful debts of approximately RMB11.3 million made by the Company during the year also contributed to the increase in distribution expenses. The increase in bad and doubtful debts was due to the repayment ability of a number of debtors being identified as doubtful and the Company decided to make specific provision against their balances in 2002.

Year ended 31 December, 2002 compared to year ended 31 December, 2003

Distribution expenses of the Company increased from approximately RMB66.4 million in 2002 to approximately RMB197.7 million in 2003. As a percentage of turnover, distribution expenses increased from approximately 3.5% in 2002 to approximately 5.6% in 2003, which was mainly due to the increase in advertising expenses from approximately RMB7.7 million in 2002 to approximately RMB74.9 million in 2003 as the Company decided to maintain its market position by investing heavily in the promotion of its products. In addition, a trademark fee of approximately RMB15.6 million (see section headed "Business – Relationship with Weichai Factory – Transfer of trademarks" for details) was paid by the Company to Weichai Factory in 2003.

Administrative expenses

The Company's administrative expenses comprise mainly staff costs, repair and maintenance expenses, depreciation and amortisation and management fees paid to the China Heavy Duty Truck Group.

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Year ended 31 December, 2001 compared to year ended 31 December, 2002

Administrative expenses of the Company increased by approximately 44.5% from approximately RMB91.4 million in 2001 to approximately RMB132.1 million in 2002. As a percentage of turnover, administrative expenses decreased from approximately 10.7% in 2001 to approximately 7% in 2002. This decrease was mainly due to the economy of scale enjoyed by the Company as many administrative expense items were relatively fixed in nature and did not increase at the same rate as the Company's sales.

Year ended 31 December, 2002 compared to year ended 31 December, 2003

Administrative expenses of the Company increased by approximately 21.7% from approximately RMB132.1 million in 2002 to approximately RMB160.8 million in 2003. The overall increase in administrative expenses was mainly due to the absorption of administrative expenses after the establishment of the Chongqing Branch. As a percentage of turnover, administrative expenses decreased from approximately 7.0% in 2002 to approximately 4.5% in 2003 as a result of economy of scale.

Research and development expenses

The research and development expenses represent the costs of parts, diesel oil and electricity directly consumed in a variety of projects. As the research and development activities conducted by the Company mainly related to the enhancement and improvement of its existing products and were carried out on a continuous basis, these research and development costs were not capitalised.

Year ended 31 December, 2001 compared to year ended 31 December, 2002

The slight increase was due to the increase in the research and development effort by the Company.

Year ended 31 December, 2002 compared to year ended 31 December, 2003

Research and development expenses increased from approximately RMB3.8 million in 2002 to approximately RMB39.4 million in 2003. The significant increase was primarily due to the fact that the Company incurred approximately RMB29.9 million for the development of technologies for diesel engines. In particular, the Company entered into a research and development contract with AVL List GmbH, pursuant to which an amount of approximately RMB21.0 million was incurred in 2003.

Finance costs

Finance costs represent interest paid on bank borrowings and discounted bills during the Track Record Period.

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Year ended 31 December, 2001 compared to year ended 31 December, 2002

The Company only increased its bank borrowings by approximately RMB0.1 million due to the sufficient operating cash being generated from its business in 2002. A drop in the interest rates applicable to the bank loans of the Company in 2002 had the effect of reducing finance costs from approximately RMB10.1 million in 2001 to approximately RMB9.7 million in 2002.

Year ended 31 December, 2002 compared to year ended 31 December, 2003

The Company maintained a stable level of bank borrowings in 2003. However, as certain bills receivables were discounted to banks, and hence interest charges on bills increased from nil in 2002 to approximately RMB21.4 million in 2003. This led to the increase in finance cost from approximately RMB9.7 million in 2002 to approximately RMB30.4 million in 2003.

Taxation

Prior to the formation of the Company on 23 December, 2002, the assessable profit of the Company was reduced by tax losses of other divisions of Weichai Factory. For the year ended 2001 and in 2002 (up to 22 December, 2002), the PRC income tax were approximately RMB4.2 million and RMB55.4 million, respectively. For the period from 23 December, 2002 to 31 December, 2002 and the year ended 31 December, 2003, the Company was subject to PRC income tax at the statutory rate of 33% on its estimated assessable profit, resulting in tax charge of RMB1.7 million and RMB178 million, respectively.

Had tax been payable on the assessable profit of the Company regardless of the tax losses of other divisions of Weichai Factory, the tax charge for the Track Record Period would have been RMB29.9 million, RMB91.5 million and RMB178 million, respectively, representing an effective tax rate of 36.2%, 40.7% and 39.1% respectively. The difference in the effective tax rate over the statutory rate of 33% was because certain expense items (being primarily staff costs in excess of the tax deductible limits) were not deductible for tax purposes.

Net profit margin

Year ended 31 December, 2001 compared to year ended 31 December, 2002

The Company's net profit margin decreased from approximately 9.2% to approximately 8.9% in 2002. The decrease was the net effect of (1) a decrease in administrative expenses as a percentage of turnover due to the benefit from the economy of scale enjoyed by the Company as mentioned in the sub-paragraph headed "Administrative expenses" above; and (2) an increase in taxation in 2002 as compared with 2001 primarily due to the lower assessable profit of the Company for 2001 as a result of tax losses of other divisions of Weichai Factory.

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Year ended 31 December, 2002 compared to year ended 31 December, 2003

The Company's net profit margin decreased from approximately 8.9% to approximately 7.8% in 2003 as a result of the increase in finance costs and taxation. The increase in finance costs was primarily due to the increase in use of bills and that certain bills receivable were discounted to banks in 2003 while the increase in taxation was mainly due to the increase in expenses not being tax deductible for PRC income tax purposes.

Financial Ratio

The Company's inventory turnover days, debtors' turnover days and creditors' turnover days during the Track Record Period are set forth below:

	31 December		
	2001	2002	2003
Inventory turnover days (<i>Note 1</i>)	58.0	57.9	37.9
Debtors' turnover days (<i>Note 2</i>)	85.2	30.4	64.1
Creditors' turnover days (<i>Note 3</i>)	87.4	80.1	200.1

Notes:

1. The calculation of inventory turnover days is based on the amount of inventories divided by cost of sales and multiplied by 365 days.
2. The calculation of debtors' turnover days is based on the amount of trade debtors and bills receivable divided by sales and multiplied by 365 days.
3. The calculation of creditor' turnover days is based on the amount of trade creditors and bills payable divided by purchases and multiplied by 365 days.

Inventory turnover days

It is the Company's intention to maintain its inventory level at a turnover period of between 30 days to 60 days. However, occasional fluctuations in purchasing, production and shipment patterns may result in the inventory turnover period falling outside this range.

Year ended 31 December, 2001 compared to year ended 31 December, 2002

Inventory turnover days remained relatively stable at approximately 58.0 days in 2001, compared with approximately 57.9 days in 2002.

Year ended 31 December, 2002 compared to year ended 31 December, 2003

Inventory turnover days decreased from approximately 57.9 days to approximately 37.9 days. This is due to the growth in demand in the market, which exceeded the Company's production capacity. Finished goods were delivered shortly after being manufactured, thereby reducing the inventory balances, which in turn shortened the inventory turnover days.

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Debtors' turnover days

Currently the Company provides credit periods of between 30 to 90 days to its major customers, while sales to other customers are generally on a payment against delivery basis.

Year ended 31 December, 2001 compared to year ended 31 December, 2002

Debtors' turnover days improved significantly from approximately 85.2 days to approximately 30.4 days. The improvement was primarily attributable to the decrease in trade debtors due to prompt settlements by customers as a result of further tightening of the credit policy adopted by the Company.

Year ended 31 December, 2002 compared to year ended 31 December, 2003

Debtor's turnover days increased substantially from approximately 30.4 days to approximately 64.1 days. The increase in debtors' turnover days was mainly because the Company offered better credit terms to its major customers with good payment records in response to their increased purchases during the year.

During the Track Record Period, the Company's policy on provision for bad and doubtful debts was as follows:

Aged within 1 year:	5%
Aged between 1 to 2 years:	15%
Aged between 2 to 3 years:	30%
Aged between 3 to 4 years:	50%
Aged between 4 to 5 years:	80%
Aged above 5 years:	100%

In addition, customers with specific collectivity problems will be identified and additional provision will be made accordingly.

For each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003, the Company's provision for bad and doubtful debts were approximately RMB3.2 million, RMB11.3 million and RMB11.6 million, respectively.

Creditors' turnover days

The Company negotiates with its suppliers to obtain open account credit to the extent possible while maintaining a good business relationship with them. However, in general, the Company settles most of its suppliers within approximately 90 days. In recent years, it has become a common practice for large-sized entities in the PRC to use bills for settlement of trade payables. As most of the Company's major suppliers are large-sized entities in the PRC, the Company uses bills to settle its suppliers' invoices. Due to the increase in the use of bills

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for payment and the increase in purchases of the Company, the amount of bills payable increased accordingly.

Year ended 31 December, 2001 compared to year ended 31 December, 2002

Creditors' turnover days remained relatively stable at approximately 87.4 days in 2001, compared with approximately 80.1 days in 2002.

Year ended 31 December, 2002 compared to year ended 31 December, 2003

Creditors' turnover days increased significantly from approximately 80.1 days in 2002 to approximately 200.1 days in 2003. The increase in creditors' turnover days was mainly because the Company increased the use of bills for payment instead of cash for payment in 2003. Since almost 90% of the bills payable of the Company carried an additional six-month maturity term granted by the Company's bankers, this led to a significant increase in creditors' turnover days.

PROPERTY, PLANT AND MACHINERY

Property

Property owned and occupied by the Company in the PRC

The Company owns and occupies an industrial complex located at No. 26 Minsheng Dong Street, Kuiwen District, Weifang City, Shandong Province, the PRC. The property comprises an industrial land parcel with a site area of approximately 73,560 sq.m. as well as a total of 18 blocks of buildings and structures with a total gross floor area of approximately 63,167.1 sq.m.. It was occupied by the Company for the production of WD615 and WD618 Engines and ancillary purposes. The land use rights have been granted to the Company for a term of 50 years expiring on 9 June, 2053 for industrial use.

Properties rented and occupied by the Company in the PRC as production facilities

As at the Latest Practicable Date, the Company rented two production facilities. One is located next to the owned factory (please refer to Property 1 in appendix III-A to the Prospectus for details), which comprises a piece of land with a site area of approximately 154,944 sq.m. together with the buildings and other ancillary structures with a total gross floor area of approximately 63,245.3 sq.m., which was built during 1970's to 2000's mainly as factories, workshops and warehouses for the manufacture of certain semi-finished diesel engine parts needed for the production of WD615 and WD618 Engines. The landlord, being Weichai Factory, has obtained the leased State-owned Land Use Right Certificate for the property. All the relevant approvals from the local government of Weifang City and other relevant authorities in the PRC in relation to the sub-lease of the above property by Weichai Factory to the Company has been obtained.

The other production facility is located at Degan Town, Jiangjin City, Chongqing, the PRC. This property comprises a piece of land with a site area of approximately 49,206.8 sq.m. together with the buildings and other ancillary structures with a total gross floor area of approximately 35,553.9 sq.m., which was built during 1970's to 2000's mainly as workshops, technology building

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and warehouses for the production of WD615 Engines. The landlord, being Chongqing Weichai, has obtained the State-owned Land Use Right Certificate for the property. Since the land portion of the property is granted land, and the relevant land premium has already been paid to the PRC Government, Chongqing Weichai is entitled to lease the above property to the Company and all the relevant approvals and consent in relation to the lease of the above property by Chongqing Weichai to the Company has been obtained.

Properties rented and occupied by the Company in the PRC as service centres and staff quarters

As at the Latest Practicable Date, the Company also rented and occupied 38 premises from independent third parties with a total gross floor area of approximately 6,347.42 sq.m. in 20 provinces, 4 municipal cities and autonomous regions in the PRC as service centres (being those offices responsible for administrative, management and marketing assistance tasks) and staff quarters. The terms of the tenancies vary with the latest one expiring on 31 August, 2008 at a total annual rental of approximately RMB1,660,520. As at the Latest Practicable Date, it was the Company's understanding that the owners of 21 of such leased properties might not have vested legal titles. The Company also understands that it is not uncommon that landlords in the PRC do not have registered titles of their properties, because, for example, with respect to properties which have been constructed for a long time and are situated in remote areas, the landlords are unable to obtain the relevant titles, or they simply choose to avoid the prolonged and complicated registration process for obtaining titles to the properties. According to the PRC legal opinion received by the Company, if the landlord of any of the leased properties does not have title to that property or the rights or authorisation to lease the property, the relevant lease agreement would not be valid under PRC laws and regulations. Accordingly, the proper owner of that property would have the right to take possession and may request the Company to vacate the property. However, the Company has the right to require the previously purported landlord to return all paid rental and/or fees and compensate it with any loss arising as a result.

As at the Latest Practicable Date, 16 leases in respect of the properties leased by the Company for service centres uses in the PRC had not been registered and filed with the relevant land and real estate administration bureau. The absence of such filing and registration may result in the lack of protection for the Company, as lessee, against third parties and administrative penalties may be imposed on the Company. However, with respect to such lack of filing and/or registration, the relevant lease agreements are still binding on the parties concerned and non-registration/filing would only result in no priority being given to the Company should a third party register a lease agreement in respect of the same property, but would not affect the legality and effectiveness of the lease agreements or the use of the properties by the Company.

Moreover, the Company has undertaken to, *inter alia*, CITIC Capital as follows:

- to find substituting properties with good titles to replace those with respect to which the Company is unable to ascertain the landlords' titles or rights or authorisations to lease the respective properties; or
- to complete the relevant registration/filing processes for the service centres and staff quarters with the relevant land and real estate administration bureaus on or before 10 May, 2004.

FINANCIAL INFORMATION

Weichai Factory has agreed to indemnify the Company against any loss or damage which the Company may suffer or incur as a result of the lack of title to any of these properties on the part of the lessor under any of the relevant lease agreements, or the failure to file or register any of the relevant lease agreements, or interference with the Company's right to use these properties under the relevant lease agreements.

The Directors have confirmed that these properties are not crucial to the operations of the Company as they are mainly for administrative, management and marketing assistance tasks but not the ones carrying out the repair and maintenance work. In the event that the Company is not allowed to occupy such properties, the Directors are confident that the Company would not encounter any difficulty in leasing similar properties in their respective localities.

Property valuation

Vigers, an independent valuer, has undertaken an assessment for the Company with regard to the valuation of its property interests as at 31 December, 2003. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set out in appendix III – A to this Prospectus.

Plant

The Company's plant has been valued by Vigers at approximately RMB331.6 million as at 31 December, 2003. The texts of the letter and summary of values prepared by Vigers are set out in appendix III to this Prospectus.

DIVIDEND POLICY AND DISTRIBUTABLE RESERVE

Dividend policy

In October 2003, the Company declared an interim dividend of RMB0.095 per Share amounting to RMB20.4 million to its shareholders, which was paid in 2003 in full.

On 19 December, 2003, the Board proposed a final dividend for 2003 of RMB0.105 per Share to its then shareholders (aggregating RMB22.6 million), which was approved by the Company's shareholders at the extraordinary general meeting held on 18 February, 2004, such dividend to be paid out of the internal resources of the Company. As such dividend relates to a period which falls prior to the Listing, purchasers of all the H Shares in the Offering will not be entitled to this dividend. The Directors confirm that the Company has sufficient cash flow for the payment of such dividend and the payment would not affect the operation of the Company. Potential investors are reminded that past payment of dividend should not be considered as the basis for future dividend policy of the Company.

The holders of the H Shares will share proportionately, on a per Share basis, all dividends and other distributions declared by the Board after the Listing. For holders of the H Shares, cash dividend payments, if any, shall be declared by the Board in Renminbi and paid in HK dollars.

FINANCIAL INFORMATION

The payment of any dividend by the Company prior to the Listing should not be used as a reference for the Company's future dividend policy, nor should it be used as a basis upon which to forecast the amount of dividends which the Company may pay in the future. There is no assurance that the Company will in the future pay dividend of an amount or at a rate similar to those prior to the Listing.

The recommendation of the payment of dividend is subject to the discretion of the Board. The amounts of dividends actually declared and paid to holders of H Shares will depend upon the following factors:

- general business conditions of the Company;
- financial results of the Company;
- capital requirements of the Company;
- interests of the Company's shareholders; and
- any other factors which the Board may deem relevant.

The Company may only distribute dividends after it has made allowances for:

- recovery of losses, if any;
- allocations to the statutory surplus reserve fund;
- allocations to the statutory public welfare fund; and
- allocations to a discretionary surplus reserve fund if approved by its shareholders.

The aggregate allocations to the statutory surplus reserve fund and statutory welfare fund are 10% to 5% of the Company's net profit after tax determined in accordance with the relevant regulations of the PRC. According to PRC law, the Company's distributable earning will be equal to its accumulated profit, determined in accordance with the PRC accounting standards and the accounting principles generally accepted in Hong Kong, whichever is lower. Any final dividend for a financial year shall be subject to shareholders' approval.

Distributable reserves

As at 31 December, 2003, the distributable reserves of the Company amounted to approximately RMB191.9 million as reported in its statutory accounts.

FINANCIAL INFORMATION

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Company is based on the audited net assets of the Company as at 31 December, 2003 as shown in the accountants' report, the text of which is set out in appendix I to this Prospectus, and adjusted as follows:

	Based on the Offer Price of HK\$8.30 per Offer Share RMB'000	Based on the Offer Price of HK\$10.80 per Offer Share RMB'000
Audited net assets of the Company as at 31 December, 2003	474,500	474,500
Final dividend approved by the shareholders of the Company (<i>note 1</i>)	(22,575)	(22,575)
<i>Less:</i> Intangible assets	(217,780)	(217,780)
Estimated net proceeds of the Offering (assuming that the Over-allotment Option is not exercised)	813,000	1,071,000
Adjusted net tangible assets	<u>1,047,145</u>	<u>1,305,145</u>
Adjusted net tangible asset value per Share (<i>note 2</i>)	<u>RMB3.32</u> <u>HK\$3.14</u>	<u>RMB4.14</u> <u>HK\$3.91</u>

Notes:

1. The final dividend of RMB22.6 million for the year ended 31 December, 2003 was proposed by the Board and was approved by the shareholders at the extraordinary general meeting held on 18 February, 2004.
2. The adjusted net tangible value per Share is arrived at after the above adjustments and on the basis that 315 million Shares are in issue and take no account of any H shares to be issued pursuant to the Over-allotment Option.
3. A surplus of approximately RMB53.7 million arising as a result of the revaluation of the Company's property, plant and equipment as at 31 December, 2003 was not incorporated in the Company's financial statements for the year ended 31 December, 2003. If the surplus were incorporated in the Company's financial statements as at 31 December, 2003, the future annual depreciation charge would be increased by approximately RMB4.1 million. The summary of valuations and valuation certificates issued by Vigers in respect of such valuations are set out in appendix III-A and appendix III-B to this Prospectus.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that since 31 December, 2003 (being the date to which the latest audited financial statements of the Company were made up), there has been no material adverse change in the financial or trading position or prospects of the Company.

FUTURE PLANS AND PROSPECTS

Although the PRC Government currently still implements the Euro I Standards, it will implement Euro II Standards in September 2004. The Company has, ahead of that timetable, upgraded its WD615 and WD618 Engines to Euro II Standards in 2002 and 2003. The Company plans to increase the production and sales volume of its WD615 and WD618 Euro II Engines in tandem with market demand and further upgrade them to Euro III Standards in the near future.

Apart from the trend to lower emissions, the load capacity and power of heavy-duty vehicles in the PRC have also increased. The PRC Government has made the development of high-tonnage heavy-duty vehicles with an output of over 220 kW a major strategic direction for the automobile industry in the tenth Five-year State Plans (2001–2005). The Company intends to develop more powerful engines in conjunction with its development of Euro III Engines. The Company also plans to increase the output of its WD618 Engines, so as to further strengthen its position as a leading high-speed heavy-duty diesel engine manufacturer in the PRC.

The Company will continue to strengthen its dominant position in the market for heavy-duty vehicles and step-up its marketing efforts on its WD615 and WD618 Engines for coaches, as the Directors believe, with the continuing development and expansion of the highway system and the tourism industry in the PRC, the demand for coaches will increase. As for the market for construction machines, the Company plans to increase its market share in the wheel-loaders market, and step up its sales efforts in other types of construction machines, such as bulldozers and road-rollers. The Company intends to leverage on its strong financial position and technical expertise as well as the experience of its strong management team to grow the Company's business by a combination of further development of and investment in its existing core business, establishment of strategic alliance and synergistic acquisitions.

USE OF PROCEEDS

USE OF PROCEEDS

The net proceeds of the Offering, based on the Offer Price of HK\$9.55 per H Share (being the mid-point of the stated range of the offer price of between HK\$8.30 and HK\$10.80 per H-Share) and after deduction of the underwriting fees and estimated expenses payable by the Company in relation to the Offering (assuming that the Over-allotment Option is not exercised) which will be received by the Company, are estimated to be approximately HK\$888 million (HK\$1,028 million if the Over-allotment Option is exercised in full). The Company currently intends to use the net proceeds to be received by it under the Offering as follows:

1. approximately RMB500 million, of which approximately RMB80 million will be used for the modification of the Weichai Production Line, including the processing, assembly and testing lines, and approximately RMB420 million will be used for the establishment of an additional production line (including machinery, equipment and premises) for the production of WD615 and WD618 Engines. This project, having been approved by the shareholders of the Company at the 2002 annual general meeting and received in-principle approval from NDRC (document entitled 《國家發改工業【2003】1878號文件》), is expected to be completed by the end of 2005, and will increase the Company's annual production capacity by 30,000 units of diesel engines;
2. approximately RMB80 million for the development, with support from AVL, of WD615 and WD618 Euro III Engines. The project is proposed to be completed around the end of 2006;
3. approximately RMB80 million for further development of the Company's existing sales and service network, consolidation of its corporate image and standards, and the implementation of computer networking between its service centres, licensed service centres and sales department;
4. approximately RMB54 million for the establishment of enterprise resources planning and production data management systems; and
5. the balance will be used as general working capital including any strategic development, acquisitions or investments that the Company may decide to pursue and to fund the business activities of the Company in the furtherance of its business objectives.

In the event that the Over-allotment Option is exercised in full, the additional net proceeds of approximately HK\$140 million receivable by the Company will also be applied by the Company as general working capital. To the extent that the net proceeds of the Offering receivable by the Company are not immediately required for the above purposes, the Directors currently intend that such proceeds, to the extent permitted by the relevant PRC laws and regulations, will be placed on short-term deposits with licensed banks or financial institutions. Please refer to the sections headed "Future plans and prospects" and "Use of proceeds" in this Prospectus for further details.

UNDERWRITING

UNDERWRITERS

Public Offer Underwriters

CITIC Capital Markets Limited
CLSA Limited
DBS Asia Capital Limited
First Shanghai Securities Limited
Guotai Junan Securities (Hong Kong) Limited
Core Pacific-Yamaichi International (H.K.) Limited
Asian Capital (Corporate Finance) Limited
Tai Fook Securities Company Limited
Partners Capital International Limited

Placing Underwriters*

CITIC Capital Markets Limited
CLSA Limited
DBS Asia Capital Limited
Goldbond Capital (Asia) Limited
CM-CCS Securities Limited
First Shanghai Securities Limited
Guotai Junan Securities (Hong Kong) Limited
VC CEF Capital Limited

* Assuming that the Placing Underwriting Agreement is entered into

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, the Company is offering the Public Offer Shares for subscription by way of Public Offer on and subject to the terms and conditions of this Prospectus and the Application Forms.

The Offering and the obligations of the Public Offer Underwriters to severally apply or procure applications for the Public Offer Shares are conditional upon (a) the grant or agreement to grant by the Listing Committee of the listing of, and permission to deal in, all the H Shares to be offered under the Offering as mentioned in this Prospectus (including the H Shares to be issued and sold pursuant to the Over-allotment Option) on the Stock Exchange having occurred and become effective (either unconditionally or subject only to allotment and issue and/or despatch or availability for collection of H Share certificates in respect of the relevant Offer Shares and/or such other conditions as may be acceptable to CITIC Capital (for itself and on behalf of the Public Offer Underwriters and, if the Placing Underwriting Agreement is entered into, the Placing Underwriters))

UNDERWRITING

and such grant or agreement to grant not having been subsequently revoked; (b) fulfilment of certain other conditions set out in the Public Offer Underwriting Agreement; and (c) the Placing Underwriting Agreement having been duly executed and delivered and having become unconditional in accordance with its terms (save and except any condition relating to the Public Offer Underwriting Agreement having become unconditional) and the Public Offer Underwriting Agreement and (if entered into) the Placing Underwriting Agreement not having been terminated in accordance with their respective terms prior to 8:00 a.m. on the Listing Date, in each case on or before the dates and times specified in the Public Offer Underwriting Agreement and (if entered into) the Placing Underwriting Agreement (unless and to the extent such conditions are waived on or before such dates and times) but in any event not later than 27 March, 2004.

Grounds for termination

The obligations of the Public Offer Underwriters to subscribe or procure subscribers for the Public Offer Shares will be subject to termination by notice in writing from CITIC Capital (on behalf of the Public Offer Underwriters) to the Company if any of the following events occur prior to 8:00 a.m. on the day the H Shares commence trading on the Stock Exchange:

- (a) (i) there is any change or prospective change in the business or in the financial or trading position of the Company; or
- (ii) any event or series of events resulting or likely to result in any change or development of local, national or international financial, political, industrial, economic, currency, military, legal, fiscal, exchange control, regulatory, equity or other financial market or other conditions, circumstances or matters (including without limitation any moratorium on, suspension or material restriction of commercial banking activities in Hong Kong, the PRC or elsewhere or trading in securities on the Stock Exchange) shall have occurred, happened or come into effect; or
- (iii) any new law or regulation or change (whether or not forming part of a series of changes) in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority of any jurisdiction relevant to the Company shall have been introduced or effected; or
- (iv) a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) or foreign investment regulations in the PRC, Hong Kong or any jurisdiction relevant to the Company; or
- (v) an adverse change or development in the conditions of Hong Kong, the PRC, the United States or international equity securities markets; or

UNDERWRITING

- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by the US, the European Union (or any member thereof) or any other country or organisation in Hong Kong, the PRC or any other jurisdiction relevant to the Company; or
- (vii) any event, or series of events, beyond the control of the Public Offer Underwriters (including without limitation, any act of God, acts of government, war, riot, public disorder, civil commotion, fire, flooding, explosion, epidemic (including but not limited to severe acute respiratory syndrome and other viruses of an epidemic nature), terrorism, strike or lockout) shall have occurred, happened or come into effect; or
- (viii) any outbreak or escalation of hostilities involving the PRC or Hong Kong, the US or any other jurisdiction relevant to the Company; or
- (ix) there is a change in the system under which the value of the HK dollar is linked to that of the US dollar; or
- (x) there is a material change in the exchange rate between the US dollar and RMB, or between HK dollars and RMB; or
- (xi) a demand by any creditor for repayment or payment of any indebtedness of the Company or in respect of which the Company is liable prior to its stated maturity which demand has or could be expected to have a material adverse effect on the Company; or
- (xii) any loss or damage sustained by the Company (howsoever caused and whether or not the subject of any insurance or claim against any person) which has or could be expected to have a material adverse effect on the Company; or
- (xiii) a petition is presented for the winding-up or liquidation of the Company or the Company makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of the Company or a provisional liquidator, receiver or manager is appointed over all or a majority of the assets or undertaking of the Company or anything analogous thereto occurs in respect of the Company,

which, in the sole and absolute opinion of CITIC Capital acting in good faith (on behalf of the Public Offer Underwriters):

- (1) is or will or is likely to be materially adverse to the business, financial or other condition or prospects of the Company or, in the case of paragraph (a)(iv) above, to the prospective shareholders as a whole or generally in their capacity as such; or

UNDERWRITING

- (2) has or will or is likely to have a material adverse effect on the success of the Public Offer or the level of the Public Offer Shares being applied for or accepted or the distribution of the Public Offer Shares; or
 - (3) makes it inadvisable or inexpedient to proceed with the Public Offer or the delivery of the Public Offer Shares on the terms and in the manner contemplated by this Prospectus; or
- (b) any of the Public Offer Underwriters shall become aware of the fact that, or have reasonable cause to believe that:
- (1) any of the warranties given by the warrantors under the Public Offer Underwriting Agreement is untrue, inaccurate or misleading in any material respect when given or repeated, or that any of the warrantors is in material breach of any provision of the Public Offer Underwriting Agreement; or
 - (2) any statement contained in the Offering Documents is or has become untrue, inaccurate or misleading in any material respect, or any matter arises or is discovered which would, if the Offering Documents were to be issued at that time, constitute a material omission therefrom.

The Placing Underwriting Agreement

In connection with the Placing, it is expected that, *inter alia*, the Company and the Selling Shareholders (pursuant to the various approval documents issued by the SASAC and the NSSF Council, and acting through the Company), will enter into the Placing Underwriting Agreement with the Placing Underwriters. Under the Placing Underwriting Agreement, subject to the conditions set out therein, the Placing Underwriters would severally agree to procure applicants to subscribe for and purchase or, failing which, to subscribe for and purchase themselves as principal the Placing Shares being offered pursuant to the Placing which are not taken up under the Placing. It is also expected that the Placing Underwriting Agreement may be terminated upon similar grounds as the Public Offer Underwriting Agreement described above.

Undertakings

Weichai Factory has undertaken to the Company and each of the Public Offer Underwriters that (i) neither it nor any of its associates (as defined in the Listing Rules) nor any company controlled by it nor any nominee or trustee holding in trust for it will, except pursuant to the Offering or the exercise of the Over-allotment Option or any direction of the PRC government or law, sell, transfer or otherwise dispose of any of the Shares or any interests therein held by it on the Listing Date within six months from the date of commencement of dealings of the H shares on the Stock Exchange (the “Period”), (ii) on any sale, transfer or disposal of such Shares during the period of six months after the expiry of the Period, all reasonable steps shall be taken to ensure that any such sale, transfer or disposal will be effected in such a manner so as not to create a disorderly or

UNDERWRITING

false market for the H Shares and (iii) it will, and procure that its associates (as defined in the Listing Rules) will, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it or by the registered holder of any Shares or other securities of the Company in respect of which it is, or is known in this Prospectus to be, the beneficial owner.

Weichai Factory has further undertaken to the Company and each of the Public Offer Underwriters that within the period of 12 calendar months from the date on which dealings in the H Shares commence on the Stock Exchange, it shall: (i) if and when it pledges or charges any securities in the Company beneficially owned by it, immediately inform the Company in writing of such pledge or charge together with the number of such securities so pledged or charged; and (ii) if and when it receives indications, either verbal or written, from any pledgee or chargee that any securities in the Company pledged or charged by it will be disposed of, immediately inform the Company in writing of such indications.

The Company agrees that it will not, except pursuant to the Offering, the exercise of the Over-allotment Option or pursuant to any scrip dividend, issue or agree to allot or issue any Shares or other securities or grant or agree to grant any options, warrants or other rights to subscribe for Shares or other securities or repurchase any securities of the Company, at any time during the Period without first having obtained the prior written consent (which consent shall not be unreasonably withheld or delayed) of CITIC Capital (on behalf of the Public Offer Underwriters).

It is also expected that each of the Company and Weichai Factory will give similar undertakings to the Placing Underwriters pursuant to the Placing Underwriting Agreement.

Commissions and expenses

The Underwriters will receive an underwriting commission of 2.5% of the Offer Price multiplied by the aggregate underwriting commitment of the Underwriters, out of which they will pay any sub-underwriting commissions, and CITIC Capital will also receive a documentation fee. Such fee and the underwriting commission (not taking into account any underwriting commission that will be payable in respect of any H Shares that will be issued by the Company if the Over-allotment Option is exercised), together with the Stock Exchange listing fees, legal and other professional fees, printing, and other expenses relating to the Offering, which are currently estimated to be approximately HK\$73 million in aggregate based on the mid-point of the stated range of the Offer Price (assuming the Over-allotment Option is not exercised), will be payable by the Company.

Underwriters' interest in the Company

Save as disclosed in this Prospectus, none of the Underwriters or any of their respective holding companies, or any of their respective subsidiaries is interested beneficially or legally in any shares of the Company or has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares in the Company.

UNDERWRITING

Sponsor

The Company will, in accordance with Rule 19A.05 of the Listing Rules, appoint the Sponsor to provide the Company with certain services for a period of one year commencing on the Listing Date.

Over-allotment Option

The Company and the Selling Shareholders (pursuant to the various approval documents issued by the SASAC and the NSSF Council, and acting through the Company) intend to grant (subject to the entering into of the Placing Underwriting Agreement) to the Placing Underwriters under the Placing Underwriting Agreement, exercisable by CITIC Capital at any time within 30 days from the date of this Prospectus, the Over-allotment Option which will require the Company to issue up to 15,000,000 additional H Shares and the Selling Shareholders (pursuant to the various approval documents issued by the SASAC and the NSSF Council, and acting through the Company) to convert up to 1,500,000 State-owned Domestic Shares into H Shares and transfer and sell such H Shares thereunder, to cover over-allocations in the Placing, if any. Depending on the demand for the H Shares in the Offering, CITIC Capital (on behalf of the Placing Underwriters) may exercise the Over-allotment Option in the Placing to cover over-allocations, if any, before the announcement of the results of applications under the Public Offer, in which case, the exercise of the Over-allotment Option and the number of H Shares issued pursuant thereto will be announced in (or on or about) the announcement of the results of applications under the Public Offer before the Listing Date. However, notwithstanding the grant of the Over-allotment Option (if and assuming that the Placing Underwriting Agreement is entered into), there is no obligation on CITIC Capital or any person acting for it to conduct any stabilizing activity, which if commenced, will be done at the absolute discretion of CITIC Capital and may be discontinued at any time.

STRUCTURE OF THE OFFERING

PRICE PAYABLE ON APPLICATION

Investors will pay the maximum Offer Price of HK\$10.80 plus a brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%, constituting a total of HK\$10,909.30 per board lot of 1,000 H Shares.

Further details are set out in the section headed “How to apply for Public Offer Shares” in this Prospectus.

DETERMINING THE OFFER PRICE

The Offer Price is expected to be determined by agreement between the Company (for itself and, if the Placing Underwriting Agreement is entered into, the Selling Shareholders) and CITIC Capital (for itself and on behalf of the Underwriters) at or before the Price Determination Time, which is currently scheduled to be at 5:00 p.m. on 3 March, 2004 or at the latest 5:00 p.m. on 4 March, 2004. If CITIC Capital (on behalf of the Public Offer Underwriters and, if the Placing Underwriting Agreement is entered into, the Placing Underwriters) and the Company (for itself and, if the Placing Underwriting Agreement is entered into, the Selling Shareholders) are unable to reach an agreement on the Offer Price by 5:00 p.m. on 4 March, 2004, the Offering will not proceed and will lapse.

The Offer Price will not be more than HK\$10.80 per H Share and is currently expected to be not less than HK\$8.30 per H Share. **Prospective investors should be aware that the Offer Price to be determined at or before the Price Determination Time may be, but is not expected to be, lower than the indicative Offer Price range stated in this Prospectus.**

If, based on the level of interest expressed by prospective investors during the book-building process, CITIC Capital (on behalf of the Underwriters, and with the consent of the Company) thinks it appropriate (for instance, if the level of interest expressed by prospective investors is below the indicative Offer Price range stated in this Prospectus), the indicative Offer Price range may be reduced to below that stated in this Prospectus at any time prior to the morning of the day which is the latest day for lodging applications under the Public Offer. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the latest day for lodging applications under the Public Offer cause to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) notice of such a change. **Applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer.** Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the offer statistics, as currently set out in the section headed “Summary” of this Prospectus and any other financial information which may change materially as a result of any such change. **Applicants under the Public Offer should note that, even if the indicative Offer Price is so reduced, in no circumstances can applications be withdrawn once submitted.**

STRUCTURE OF THE OFFERING

In the absence of any notice being published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) of a reduction of the indicative Offer Price range in the manner set out above, the Offer Price, if agreed upon with the Company, will under no circumstances be set outside the Offer Price range as stated in this Prospectus.

The Offer Price, level of indication of interest in the Placing, basis of allotment and the results of applications of the Public Offer are expected to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on or before Tuesday, 9 March, 2004.

CONDITIONS OF THE OFFERING

The Offering and the obligations of the Public Offer Underwriters to severally apply or procure applications for the Public Offer Shares are conditional upon (a) the grant or agreement to grant by the Listing Committee of the listing of, and permission to deal in, all the H Shares to be offered under the Offering as mentioned in this Prospectus (including the H Shares to be issued and sold pursuant to the Over-allotment Option) on the Stock Exchange having occurred and become effective (either unconditionally or subject only to allotment and issue and/or despatch or availability for collection of H Share certificates in respect of the relevant Offer Shares and/or such other conditions as may be acceptable to CITIC Capital (for itself and on behalf of the Public Offer Underwriters and, if the Placing Underwriting Agreement is entered into, the Placing Underwriters)) and such grant or agreement to grant not having been subsequently revoked; (b) fulfilment of certain other conditions set out in the Public Offer Underwriting Agreement; and (c) the Placing Underwriting Agreement having been duly executed and delivered and having become unconditional in accordance with its terms (save and except any condition relating to the Public Offer Underwriting Agreement having become unconditional) and the Public Offer Underwriting Agreement and (if entered into) the Placing Underwriting Agreement not having been terminated in accordance with their respective terms prior to 8:00 a.m. on the Listing Date, in each case on or before the dates and times specified in the Public Offer Underwriting Agreement and (if entered into) the Placing Underwriting Agreement (unless and to the extent such conditions are waived on or before such dates and times) but in any event not later than 27 March, 2004.

THE OFFERING

The Offering comprises the Public Offer and the Placing. A total of 110,000,000 H Shares will initially be made available under the Offering, of which 99,000,000 H Shares, representing 90% of the H Shares initially available under the Offering, will be conditionally placed with professional, institutional and private investors under the Placing. The remaining 11,000,000 H Shares, representing 10% of the number of H Shares initially being offered under the Offering, will be offered to members of the public in Hong Kong under the Public Offer. Both the Placing and the Public Offer are subject to reallocation on the basis described under the paragraph “The Public Offer”.

STRUCTURE OF THE OFFERING

All decisions concerning the allocation of Placing Shares to prospective placees pursuant to the Placing will be made on the basis of and with reference to a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Placing Shares and/or hold or sell its Placing Shares, after the listing of the H Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid shareholders base for the benefit of the Company and its shareholders as a whole. In addition, the Directors and CITIC Capital will use their best endeavours to observe the minimum public float requirement under the Listing Rules when making allocations of the Placing Shares to investors who are anticipated to have a sizeable demand for such H Shares.

The Public Offer is open to all members of the public in Hong Kong, as well as to institutional and professional investors. The Public Offer Underwriters have agreed to underwrite the Public Offer Shares under the terms of the Public Offer Underwriting Agreement. It is expected that the Placing Underwriters will agree to underwrite the Placing Shares under the terms of the Placing Underwriting Agreement. Particulars of the underwriting arrangements are set out under the section headed "Underwriting" in this Prospectus.

Allocation of Public Offer Shares to investors under the Public Offer will be based solely on the level of interest from valid applications received under the Public Offer. When there is over-subscription under the Public Offer, allocation of Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares at all.

Investors may not apply for the H Shares under the Public Offer and indicate interest in the H Shares under the Placing. If you apply for the H Shares under the Public Offer and the Placing, your applications will be rejected. The Company, the Directors and CITIC Capital will take reasonable steps to identify and reject any multiple applications which are not allowed and will be rejected.

In connection with the Offering, the Company and the Selling Shareholders intend to grant the Over-allotment Option to the Placing Underwriters, exercisable on their behalf by CITIC Capital at any time and from time to time within 30 days from the date of this Prospectus. Pursuant to the Over-allotment Option, the Company and the Selling Shareholders can be required to allot and issue or sell (as the case may be), at the Offer Price, up to an additional 16,500,000 H Shares, representing 15% of the number of H Shares initially being offered under the Offering, to cover over-allocations in the Placing. CITIC Capital may also cover such over-allocations by a combination of (i) purchases in the secondary market; and/or (ii) exercise of the Over-allotment Option, either in part or in full. Any such secondary market purchases will be made in compliance with all applicable laws and regulatory requirements and the price of any such secondary market purchases shall not exceed the Offer Price. If the Over-allotment Option is exercised in full, the H Shares will represent approximately

STRUCTURE OF THE OFFERING

38.33% of the Company's enlarged issued share capital following completion of the Offering and full exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

THE PUBLIC OFFER

The Company is initially offering 11,000,000 H Shares at the Offer Price, representing 10% of the H Shares initially being offered under the Offering, for subscription by members of the public in Hong Kong. The Public Offer, pending agreement on the Offer Price by the Company and the Underwriters, is fully underwritten by the Public Offer Underwriters.

Multiple applications or suspected multiple applications or any application for more than 100% of the Public Offer Shares initially available or applications where cheques or banker's cashier orders are dishonoured upon first presentation will be rejected. Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the application form submitted by him that he and any person(s) for whose benefit he is making the application have not indicated and will not indicate an interest in, and have not received or been placed with or allotted (including conditionally and/or provisionally), any H Shares under the Placing, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be). The Company and CITIC Capital will reject applications in the Public Offer from investors who have received any H Share under the Placing.

The Public Offer Shares (taking account of any adjustment of Offer Shares between the Placing and the Public Offer referred to below) will be divided equally into two pools for allocation purposes: pool A and pool B. The Public Offer Shares in pool A will consist of not less than 5,500,000 H Shares and will be allocated on an equitable basis to successful applicants who have applied for Public Offer Shares with a total subscription and purchase amount (excluding the brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee) of HK\$5 million or less. The Public Offer Shares in pool B will consist of not less than 5,500,000 H Shares and will be allocated on an equitable basis to successful applicants who have applied for Public Offer Shares with a total subscription and purchase amount (excluding the brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee) of more than HK\$5 million and up to the total value of pool B. You should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Public Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Public Offer Shares will be transferred to the other pool to satisfy demand in that pool and be allocated accordingly. You can only receive an allocation of Public Offer Shares from either pool A or pool B but not from both pools and may only apply for Public Offer Shares in pool A or pool B. In addition, multiple applications within either pool or between pools will be rejected. No applications will be accepted from applicants applying for more than the total number of Public Offer Shares originally allocated to each pool. Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the application form submitted by him that he and any person(s) for whose benefit he is making the application have not indicated and will not indicate an interest in any Placing Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is

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breached and/or untrue (as the case may be). The Company and CITIC Capital have full discretion to reject or accept any application, or to accept only part of any application.

Allocation of Public Offer Shares to investors under the Public Offer will be based solely on the level of interest from valid applications received under the Public Offer when there is over-subscription under the Public Offer. Allocation of Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of Public Offer Shares, and those applicants which are not successful in the ballot may not receive any Public Offer Shares at all. Investors who do not receive any allocation under the Public Offer may receive H Shares in the Placing.

Over-subscription

The allocation of the H Shares between the Public Offer and the Placing is subject to adjustment. If the number of H Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of the H Shares initially available for subscription under the Public Offer, then 22,000,000 H Shares will be reallocated to the Public Offer from the Placing, so that an aggregate of 33,000,000 H Shares will be available under the Public Offer, representing 30% of the H Shares initially available under the Offering. If the number of H Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of the H Shares initially available for subscription under the Public Offer, then 33,000,000 H Shares will be reallocated to the Public Offer from the Placing, so that an aggregate of 44,000,000 H Shares will be available under the Public Offer, representing 40% of the H Shares initially available under the Offering. If the number of H Shares validly applied for under the Public Offer represents 100 times or more the number of the H Shares initially available for subscription under the Public Offer, then 44,000,000 H Shares will be reallocated to the Public Offer from the Placing, so that an aggregate of 55,000,000 H Shares will be available under the Public Offer, representing 50% of the H Shares initially available under the Offering.

Under-subscription

If the Public Offer is not fully subscribed, CITIC Capital will have the discretion to reallocate all or any unsubscribed H Shares originally included in the Public Offer to the Placing pursuant to the terms of the Placing Underwriting Agreement.

THE PLACING

The Company and the Selling Shareholders (pursuant to the various approval documents issued by the SASAC and the NSSF Council, and acting through the Company) intend to initially offer 99,000,000 H Shares in aggregate, representing 90% of the total number of H Shares initially being offered under the Offering, by way of placing. The Placing is expected to be fully underwritten by the Placing Underwriters, subject to the entering into and the terms and conditions of the Placing Underwriting Agreement. It is expected that the Placing Underwriting Agreement will be entered

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into on or about 2 March, 2004. If the Placing Underwriting Agreement is not entered into in accordance with the Public Offer Underwriting Agreement, the Offering will not become unconditional and will lapse.

Pursuant to the Placing, it is expected that the Placing Underwriters or selling agents nominated by the Placing Underwriters on behalf of the Company and the Selling Shareholders (pursuant to the various approval documents issued by the SASAC and the NSSF Council, and acting through the Company) shall place the Placing Shares at the Offer Price, payable by the purchasers of the Placing Shares. Investors purchasing the Placing Shares are also required to pay a brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%. Placing Shares will be placed with professional, institutional and private investors. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary businesses involve dealing in shares and other securities and entities which regularly invest in shares and other securities.

In Hong Kong, retail investors should apply for the H Shares under the Public Offer, as retail investors applying for the Placing Shares (including applying through banks and other institutions) are unlikely to be allocated any Placing Shares.

Allocation of the Placing Shares pursuant to the Placing will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further H Shares and/or hold or sell its H Shares, after the listing of the H Shares on the Stock Exchange. Such allocation is generally intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid shareholder base for the benefit of the Company and its shareholders as a whole. The Company, the Directors and CITIC Capital (on behalf of the Underwriters) will reject applications in the Placing from investors who have received any H Share under the Public Offer.

As referred to above, if the Public Offer is not fully subscribed, CITIC Capital may reallocate all or any unsubscribed H Shares originally included in the Public Offer to the Placing. The total number of Placing Shares to be allotted and issued pursuant to the Placing may change as a result of the clawback arrangement referred to under the paragraph “The Public Offer” above, the exercise of the Over-allotment Option and any reallocation of unsubscribed H Shares originally included in the Public Offer.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard, and if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the offer price.

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In connection with the Offering and subject to the entering into of the Placing Underwriting Agreement, CITIC Capital, as stabilizing manager, or any person acting for it, on behalf of the Placing Underwriters, may over-allocate or effect transactions with a view to supporting the market price of the H Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the issue date. Any market purchases, if any, of H Shares will be effected in compliance with all applicable laws and regulatory requirements. However there is no obligation on CITIC Capital (or any person acting for it) to conduct any such stabilizing activity, which, if commenced, will be done at the absolute discretion of CITIC Capital and may be discontinued at any time. The number of H Shares that may be over-allocated will not exceed the number of H Shares that may be issued under the Over-allotment Option, being 16,500,000 H Shares and representing 15% of the H Shares initially available under the Offering.

Stabilizing action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules includes (i) over-allocation for the purpose of preventing or minimising any reduction in the market price; (ii) selling or agreeing to sell H Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price; (iii) subscribing or purchasing, or agreeing to subscribe or purchase, H shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, H Shares for the sole purpose of preventing or minimising any reduction in the market price; (v) selling or agreeing to sell H Shares to liquidate a long position held as a result of the purchases under (iv); and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

As a result of effecting transactions to stabilize or maintain the market price of the H Shares, CITIC Capital, or any person acting for it, may maintain a long position in the H Shares. The size of the long position, and the period for which CITIC Capital, or any person acting for it, will maintain the long position is at the discretion of CITIC Capital and is uncertain. In the event that CITIC Capital liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the H Shares.

Stabilizing action by CITIC Capital, or any person acting for it, cannot be taken to support the price of the H Shares for longer than the stabilizing period, which begins on the day on which trading of the H Shares commences on the Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Public Offer. The aforesaid stabilizing period is expected to end on 1 April, 2004, and after that date no stabilization action may be taken and the demand for the H Shares, and their market price, may fall after the end of the stabilizing period.

Any stabilizing action taken by CITIC Capital, or any person acting for it, may not necessarily result in the market price of the H Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for, or transactions effected in the course of the stabilizing action, if any, in respect of, the H Shares by CITIC Capital, or any person acting for it, may be made at a price at or below the Offer Price and therefore stabilizing bids may be made or transactions effected at or below the price paid for the H Shares by subscribers or purchasers.

STRUCTURE OF THE OFFERING

SELLING SHAREHOLDERS

The Selling Shareholders (pursuant to the various approval documents issued by the SASAC and the NSSF Council, and acting through the Company) intend to initially offer a total of 10,000,000 H Shares for sale as part of the Placing. The Selling Shareholders may sell up to an additional 1,500,000 H Shares if the Over-allotment Option is exercised in full. The sale of all such H Shares by the Selling Shareholders has been approved by the SASAC, the NSSF Council and the CSRC.

As at the Latest Practicable Date, the Selling Shareholders held an aggregate of 112,950,000 State-owned Domestic Shares.

HOW TO APPLY FOR PUBLIC OFFER SHARES

1. METHODS TO APPLY FOR PUBLIC OFFER SHARES

You may apply for Public Offer Shares by using one of the following methods:

- Use a **WHITE** or **YELLOW** Application Form.
- Give **electronic application instructions** to HKSCC via CCASS to cause HKSCC Nominees to apply for Public Offer Shares on your behalf.

You may not both apply on a **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC.

2. WHICH APPLICATION METHOD YOU SHOULD USE

(a) **WHITE Application Forms**

Use a **WHITE** Application Form if you want the Public Offer Shares to be registered in your own name.

(b) **YELLOW Application Forms**

Use a **YELLOW** Application Form if you want the Public Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

(c) **Electronically instruct HKSCC to make an application on your behalf**

Instead of using a **YELLOW** Application Form, you may **electronically** instruct HKSCC via CCASS to cause HKSCC Nominees to apply for Public Offer Shares on your behalf. Any Public Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Note: The H Shares are not available to existing beneficial owners of the Shares, the Directors or Supervisors, or their respective associates (as defined in the Listing Rules), connected persons of the Company (unless otherwise allowed by the Stock Exchange) or to PRC legal or natural persons or US persons (as defined in the Regulation S under the US Securities Act).

3. WHERE TO COLLECT THE APPLICATION FORMS

You can collect a **WHITE** Application Form and a Prospectus from:

CITIC Capital Markets Limited

26/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

CLSA Limited

18/F, One Pacific Place
88 Queensway
Hong Kong

DBS Asia Capital Limited

16/F, Man Yee Building
68 Des Voeux Road Central
Hong Kong

First Shanghai Securities Limited

19/F, Wing On House
71 Des Voeux Road Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited

27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Core Pacific-Yamaichi International (H.K.) Limited

36/F, COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

Asian Capital (Corporate Finance) Limited

Suite 1006
Bank of America Tower
12 Harcourt Road
Central, Hong Kong

HOW TO APPLY FOR PUBLIC OFFER SHARES

Tai Fook Securities Company Limited

25/F, New World Tower
16–18 Queen's Road Central
Hong Kong

Partners Capital International Limited

Room 1305, 13/F
9 Queen's Road Central
Hong Kong

or any of the following branches of **The Hongkong and Shanghai Banking Corporation Limited:**

Hong Kong Island:

Hong Kong Main Branch	Level 3, 1 Queen's Road Central
Des Voeux Road Central Branch	China Insurance Group Building, 141 Des Voeux Road Central
Des Voeux Road West Branch	Western Centre, 40–50 Des Voeux Road West
Hay Wah Building Branch	G/F., Hay Wah Building, 71–85B Hennessy Road, Wanchai
North Point Branch	G/F., Winner House, 306–316 King's Road, North Point

Kowloon:

Kwun Tong Branch	1 Yue Man Square, Kwun Tong
Mongkok Link D & N Banking Centre	673 Nathan Road, Mongkok
Tsim Sha Tsui Branch	82–84 Nathan Road, Tsimshatsui

New Territories:

Kwai Fong – D & N Banking Centre	Shop Nos. 218A & 219–220, Level 2, Metroplaza, Kwai Fong, N.T.
Citylink Plaza	Shops 38–46, Citylink Plaza, Shatin Station Circuit, Sha Tin, N.T.

You can collect a **YELLOW** Application Form and a Prospectus from:

- (a) The **Depository Counter of HKSCC** at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong.

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (b) The **Customer Service Centre of HKSCC** at Upper Ground Floor, V-Heun Building, 128-140 Queen's Road Central, Hong Kong.

Your broker may have the Application Forms available.

4. WHEN TO APPLY FOR THE PUBLIC OFFER SHARES

(a) **WHITE or YELLOW Application Forms**

Completed **WHITE** or **YELLOW** application forms, with cheque or banker's cashier order attached, must be lodged by 12:00 noon on Tuesday, 2 March, 2004, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below.

Your completed **WHITE** or **YELLOW** Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of the banks listed in the section headed "Where to collect the Application Forms" at the following times:

Thursday, 26 February, 2004	– 9:00 a.m. to 4:00 p.m.
Friday, 27 February, 2004	– 9:00 a.m. to 4:00 p.m.
Saturday, 28 February, 2004	– 9:00 a.m. to 12:00 noon
Monday, 1 March, 2004	– 9:00 a.m. to 4:00 p.m.
Tuesday, 2 March, 2004	– 9:00 a.m. to 12:00 noon

(b) **Electronic application instructions to HKSCC**

CCASS Participants should input **electronic application instructions** via CCASS at the following times:

Thursday, 26 February, 2004	– 9:00 a.m. to 7:00 p.m.
Friday, 27 February, 2004	– 9:00 a.m. to 7:00 p.m.
Saturday, 28 February, 2004	– 9:00 a.m. to 3:00 p.m.
Monday, 1 March, 2004	– 9:00 a.m. to 7:00 p.m.
Tuesday, 2 March, 2004	– 9:00 a.m. to 12:00 noon

The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) is 12:00 noon on Tuesday, 2 March, 2004 or if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Warning

The subscription of Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. The Sponsor and the Company take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System or CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit the **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an application instruction input request form before 12:00 noon on Tuesday, 2 March, 2004.

(c) Application lists

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, 2 March, 2004, except as provided in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below. No proceedings will be taken on applications for the Public Offer Shares and no allocation of any Public Offer Shares will be made until after the closing of the application lists.

(d) Effect of bad weather conditions on the opening of the application lists

The application lists will be open between 11:45 a.m. and 12:00 noon on Tuesday, 2 March, 2004, subject to weather conditions. The application lists will not be open in relation to the Public Offer if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 2 March, 2004, or if there are similar extraneous factors as are acceptable to the Stock Exchange. Instead, they will be open between 11:45 a.m. and 12:00 noon on the next business day which does not fall within the above circumstances at any time between 9:00 a.m. and 12:00 noon in Hong Kong. **Business day** means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

HOW TO APPLY FOR PUBLIC OFFER SHARES

5. HOW TO COMPLETE THE APPLICATION FORM

There are detailed instructions on every **WHITE** and **YELLOW** Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque or banker's cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

You should note that by signing on the Application Form:

- (i) you agree with the Company and each shareholder of the Company, and the Company agrees with each shareholder of the Company, to observe and comply with the Company Law, the Special Regulations and the Articles of Association;
- (ii) you agree with the Company, and each shareholder, director, supervisor, manager and officer of the Company, and the Company acting for itself and for each director, supervisor, manager and officer of the Company agrees with each shareholder of the Company to refer to arbitration in accordance with the Articles of Association, all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive;
- (iii) you confirm that you understand entirely that the registered share capital of the Company comprises Domestic Shares, unlisted Foreign Shares (which, prior to their conversion (if any) into H Shares, are not H Shares) and H Shares and that holders of unlisted Foreign Shares in the Company shall have the same rights as holders of Domestic Shares save as to certain rights which only the holders of unlisted Foreign Shares are entitled;
- (iv) you agree with the Company and each shareholder of the Company that the H Shares in the Company are freely transferable by the registered holders thereof; and
- (v) you authorise the Company to enter into a contract on your behalf with each director, supervisor and officer of the Company whereby such Directors, Supervisors and officers undertake to observe and comply with their obligations to the shareholders of the Company as stipulated in the Articles of Association.

If your application is made through a duly authorised attorney, the Company and CITIC Capital (or their respective agents or nominees) as its agent may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney. CITIC Capital in its capacity as agent for the Company has full discretion to reject or accept any application, in full or in part, without assigning any reason therefor.

HOW TO APPLY FOR PUBLIC OFFER SHARES

6. HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

- (a) CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for Public Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.
- (b) If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or the CCASS Internet System at <https://ip.ccass.com> (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for you if you come to:

Customer Service Centre of HKSCC at
Upper Ground Floor
V-Heun Building
128–140 Queen's Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

- (c) If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for Public Offer Shares.
- (d) You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your CCASS Broker Participant or CCASS Custodian Participant to the Company and the registrar of the H Shares in Hong Kong.
- (e) You may give **electronic application instructions** in respect of a minimum of 1,000 Public Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Public Offer Shares must be in one of the multiples set out in the table in the Application Forms.
- (f) Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Public Offer Shares:
 - (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this Prospectus; and

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (ii) HKSCC Nominees does all the things on behalf of each of such persons as stated in sub-paragraph (c) in the paragraph headed “Effect of making any application” in the section headed “Terms and Conditions of the Public Offer”.
- (g) If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application.
- (h) For the purpose of allocating Public Offer Shares, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.

7. RESULTS OF ALLOCATIONS

The results of allocation of Public Offer Shares, including applications made under **WHITE** and **YELLOW** Application Forms and by giving **electronic application instructions** to HKSCC, which will include the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers (where applicable) of successful applicants and the number of the Public Offer Shares successfully applied for, are expected to be published in the *South China Morning Post* (in English) and *Hong Kong Economic Times* (in Chinese) on Tuesday, 9 March, 2004.

8. HOW MANY APPLICATIONS YOU MAY MAKE

You may make more than one application for the H Shares only if:

You are a nominee, in which case you may lodge more than one application in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code

HOW TO APPLY FOR PUBLIC OFFER SHARES

for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner. If you do not include such information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed.

All of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instruction** to HKSCC;
- apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly with others) or by giving **electronic application instruction** to HKSCC to apply for more than 50% of the H Shares initially being offered for public subscription under the Public Offer (that is, to apply for more than 5,500,000 H Shares); or
- make application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instruction** to HKSCC and have indicated an interest or applied for, or have been or will be placed, any Placing Shares under the Placing.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and

- the only business of that company is dealing in securities; and
- you exercise statutory control over that company

then the application will be treated as being for your benefit.

***Unlisted company** means a company with no equity securities listed on the Stock Exchange.*

***Statutory control** means you:*

- *control the composition of the board of directors of the company; or*
- *control more than half of the voting power of the company; or*
- *hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).*

HOW TO APPLY FOR PUBLIC OFFER SHARES

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The maximum Offer Price is HK\$10.80 per H Share. You must also pay a brokerage of 1%, SFC transaction levy of 0.005%, the investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%. This means that for every 1,000 H Shares you have to pay HK\$10,909.30. The Application Forms have tables showing the exact amounts payable for certain multiples of H Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee in full when you apply for the H Shares. You must pay the amount payable upon application for the H Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Forms.

If your application is successful, the brokerage will be paid to participants of the Stock Exchange, and the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee will be paid to the Stock Exchange (in the case of the SFC transaction levy and the investor compensation levy, collected on behalf of the SFC). Details of the procedures for despatch of share certificates are set out in the section headed "Terms and conditions of the Public Offer – If your application for the Public Offer Shares is successful (in whole or in part)" in this Prospectus.

If your application is unsuccessful, the appropriate refund payment (including the related brokerage, transaction levy, the investor compensation levy and the Stock Exchange trading fee) will be made without interest. Details of the procedure for refund are set out in the section headed "Terms and conditions of the Public Offer – Refund of your money – additional information" in this Prospectus.

If the Offer Price as finally determined is less than HK\$10.80 per Public Offer Share, appropriate refund payments (including the Stock Exchange trading fee, the SFC transaction levy, investor compensation levy and the brokerage attributable to the surplus application monies) will be made to successful applicants, without interests. Details of the procedure for refund are set out in the section headed "Terms and conditions of the Public Offer – Refund of your money – additional information".

TERMS AND CONDITIONS OF THE PUBLIC OFFER

1. GENERAL

- (a) If you apply for the Public Offer Shares in the Public Offer, you will be agreeing with the Company and the CITIC Capital (on behalf of the Public Offer Underwriters) as set out below.
- (b) If you **electronically** instruct HKSCC to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf, you will have authorised HKSCC Nominees to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.
- (c) In this section, references to “you”, “applicants”, “joint applicants” and other like references shall, if the context so permits, include references to both nominees and principals on whose behalf HKSCC Nominees are applying for the Public Offer Shares; and references to the making of an application shall, if the context so permits, include references to making applications **electronically** by giving instructions to HKSCC.
- (d) Applicants should read carefully this Prospectus, including other terms and conditions of the Public Offer, the paragraph headed “The Public Offer” in the section headed “Structure of the Offering”, and in the section headed “How to apply for the Public Offer Shares” and the terms and conditions set out in the relevant Application Form or imposed by HKSCC (as the case may be) prior to making an application.

2. OFFER TO PURCHASE THE PUBLIC OFFER SHARES

- (a) You offer to purchase from the Company at the Offer Price the number of the Public Offer Shares indicated in your Application Form or inputted via CCASS **electronically**, as the case may be (or any smaller number in respect of which your application is accepted) on the terms and conditions set out in this Prospectus and the relevant Application Form.
- (b) For applicants using Application Forms, a refund cheque in respect of the surplus application monies (if any) representing the Public Offer Shares applied for but not allocated to you and representing the difference (if any) between the final Offer Price and the maximum Offer Price (including brokerage fee, the SFC transaction levy, the investor compensation levy and Hong Kong Stock Exchange trading fee attributable thereto), is expected to be sent to you at your own risk to the address stated on your Application Form.

Details of the procedure for refunds relating to each of the Public Offer methods are contained below in the paragraphs headed “If your application for the Public Offer Shares is successful (in whole or in part)” and “Refund of your money – additional information” in this section.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

- (c) Any application may be rejected in whole or in part.
- (d) Applicants under the Public Offer should note that in no circumstances (save for those provided under section 40 of the Companies Ordinance) can applications be withdrawn once submitted. For the avoidance of doubt, the Company and all other parties involved in the preparation of this Prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instructions** to HKSCC via CCASS is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

3. ACCEPTANCE OF YOUR OFFER

- (a) The Public Offer Shares will be allocated after the application lists close. The Company expects to announce the final number of Public Offer Shares, the level of applications under the Public Offer, the basis of allocations of the Public Offer Shares, the Hong Kong Identity Card numbers, passport numbers or Hong Kong business registration numbers (where applicable) of successful applicants and the number of Public Offer Shares successfully applied for in the *South China Morning Post* (in English) and the *Hong Kong Economic Times* (in Chinese) on Tuesday, 9 March, 2004.
- (b) The Company may accept your offer to purchase (if your application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.
- (c) If the Company accepts your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to purchase the Public Offer Shares in respect of which your offer has been accepted if the conditions of the Offering are satisfied and the Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Offering.”
- (d) You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

4. HOW MANY APPLICATIONS YOU MAY MAKE

Please refer to the section headed “How to apply for Public Offer Shares – How many applications you may make” in this Prospectus.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

5. EFFECT OF MAKING ANY APPLICATION

- (a) By making any application, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:
- **Instruct** and **authorise** the Company and CITIC Capital (for itself and on behalf of the Public Offer Underwriters) (or their respective agents or nominees) as agent for the Company to do on your behalf all things necessary to effect registration of any Public Offer Shares allocated to you in your name(s) or under the name of HKSCC Nominees, as the case may be, as required by the Articles of Association and otherwise to give effect to the arrangements described in this Prospectus and the relevant Application Form;
 - **undertake** to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Public Offer Shares allocated to you, and as required by the Articles of Association;
 - **represent** and **warrant** that you understand that the H Shares have not been and will not be registered under the US Securities Act and you are outside the United States (as defined in Regulation S under the US Securities Act) when completing the relevant Application Form and are not a US person described under the US Securities Act;
 - **confirm** that you have received a copy of this Prospectus and have only relied on the information and representations contained in this Prospectus in making your application, and not on any other information or representation concerning the Company and you agree that neither the Company, the Public Offer Underwriters nor any of their respective directors, officers, employees, partners, agents or advisers will have any liability for any such other information or representations;
 - **agree** that the Company, CITIC Capital and the other Public Offer Underwriters, their respective directors, officers, employees, partners, agents, advisors or any other parties involved in the Offering are not liable for the information and representations not contained in this Prospectus or the Application Form;
 - **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
 - (if the application is made for your own benefit) **warrant** that the application is the only application which has been or will be made, whether by yourself, by your agent or by any other person, for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC (if you are a CCASS Participant or applying through a CCASS Broker Participant or a CCASS Custodian Participant);

TERMS AND CONDITIONS OF THE PUBLIC OFFER

- (if the application is made by an agent for your own benefit) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
- (if you are an agent for another person) **warrant** that no other application is being made by you as agent for or for the benefit of that other person or by that other person or by any other person as agent for that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instruction** to HKSCC (if you are a CCASS Participant or applying through a CCASS Broker Participant or a CCASS Custodian Participant), and that you are duly authorised to sign the Application Form or to give **electronic application instructions** as that other person's agent;
- **agree** that, subject to the Offering becoming unconditional in all respects and not being terminated in accordance with the terms set out in this Prospectus, your application will be evidenced by the results of the Public Offer made available by the Company;
- **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any Placing Shares in the Placing, nor otherwise participate in the Placing;
- **warrant** the truth and accuracy of the information contained in your application;
- **agree** to disclose to the Company, the Public Offer Underwriters, the H Share registrar and the receiving banker of the Public Offer and their respective agents any information about you which they require or the person(s) for whose benefit you have made the application;
- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- **undertake** and **agree** to accept the H Shares applied for, or any lesser number allocated to you under the application;
- **authorise** the Company to place your name(s) or HKSCC Nominees, as the case may be, on the register of members of the Company as the holder(s) of any Public Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) (where applicable) and/or any refund cheque (where applicable) to you or (in case of joint applicants) the first-named applicant in the

TERMS AND CONDITIONS OF THE PUBLIC OFFER

Application Form by ordinary post at your own risk to the address stated on your Application Form (except that if you have applied for 500,000 Public Offer Shares or more and have indicated in your Application Form, you can collect your Share certificate(s) (where applicable) and/or refund cheque (where applicable) in person between 9:00 a.m. and 1:00 p.m. on 10 March, 2004 from Computershare Hong Kong Investor Services Limited;

- **understand** that these declarations and representations will be relied upon by the Company and CITIC Capital in deciding whether or not to allocate any Public Offer Shares in response to your application;
- if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of the Company, CITIC Capital and the other Public Offer Underwriters nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this Prospectus.
- **agree** with the Company, for itself and for the benefit of each shareholder of the Company (and so that the Company will be deemed by its acceptance in whole or in part of the application to have agreed, for itself and on behalf of each shareholder of the Company) to observe and comply with the Company Law, the Special Regulations and the Articles of Association;
- **agree** with the Company, each shareholder, director, supervisor, manager and officer of the Company, and the Company acting for itself and for each director, supervisor, manager and officer of the Company agrees with each shareholder of the Company, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;
- **agree** with the Company and each shareholder of the Company that H Shares in the Company are freely transferable by the registered holders thereof;
- **authorise** the Company to enter into a contract on behalf of you with each director, supervisor and officer of the Company whereby such directors, supervisors and officers undertake to observe and comply with their obligations to shareholders of the Company stipulated in the Articles of Association;

TERMS AND CONDITIONS OF THE PUBLIC OFFER

- **confirm** that you have read the terms and conditions and application procedures set out in this Prospectus and agree to be bound by them; and
 - **confirm** that you are aware of the restrictions on offering of the H Shares described in this Prospectus.
- (b) If you apply for the Public Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to in (a) above you **agree** that:
- any Public Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant, in accordance with your election on the Application Form;
 - each of HKSCC and HKSCC Nominees reserves the right (1) **not to accept** any or part of the Public Offer Shares allocated to you in the name of HKSCC Nominees or **not to accept** such Public Offer Shares for deposit into CCASS; (2) to cause such Public Offer Shares to be **withdrawn** from CCASS and transferred into your name at your own risk and costs; and (3) to cause such **Public Offer Shares to be issued in your name** (or, if you are a joint applicant, to the first-named applicant) and in such a case, to **post the share certificates** for such allotted Public Offer Shares at your own risk to the address on your Application Form by ordinary post or **to make available the same for your collection**;
 - each of HKSCC and HKSCC Nominees may adjust the number of the Public Offer Shares allocated to you and issued in the name of HKSCC Nominees;
 - neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this Prospectus and the Application Forms;
 - neither HKSCC nor HKSCC Nominees shall be liable to you in any way.
- (c) In addition, by giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to do the following additional things and neither HKSCC nor HKSCC Nominees will be liable to the Company nor any other person in respect of such things:
- **instruct** and **authorise** HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for the Public Offer Shares on your behalf;

TERMS AND CONDITIONS OF THE PUBLIC OFFER

- **instruct** and **authorise** HKSCC to arrange payment of the maximum Offer Price, brokerage fee, the SFC transaction levy, the investor compensation levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications and/or if the final Offer Price is less than the maximum Offer Price of HK\$10.80 per H Share, refund the appropriate portion of the application money by crediting your designated bank account;
- (in addition to the confirmations and agreements set out in paragraph (a) above) **instruct** and **authorise** HKSCC to cause HKSCC Nominees to do on your behalf the following:
 - **agree** that the Public Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted **electronic application instructions** on your behalf;
 - **undertake** and **agree** to accept the Public Offer Shares in respect of which you have given **electronic application instructions** or any lesser number;
 - (if the **electronic application instructions** are given for your own benefit) **declare** that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) **declare** that you have given only one set of **electronic application instructions** for the benefit of that other person, and that you are duly authorised to give those instructions as that other person's agent;
 - **understand** that the above declaration will be relied upon by the Company and CITIC Capital (for itself and on behalf of the Public Offer Underwriters), in deciding whether or not to make any allocation of the Public Offer Shares in respect of the **electronic application instructions** given by you and that you may be prosecuted if you make a false declaration;
 - **authorise** the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Public Offer Shares allocated in respect of your **electronic application instructions** and to send share certificates and/or refund in accordance with arrangements separately agreed between the Company and HKSCC;

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- **confirm** that you have only relied on the information and representations in this Prospectus in giving your **electronic application instructions** or instructing your CCASS Broker Participant or CCASS Custodian Participant to give **electronic application instructions** on your behalf;
- **agree** (without prejudice to any other rights which you may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- **agree** that once the application of HKSCC Nominees is accepted, neither that application nor your **electronic application instructions** can be revoked and that, subject to the Offering becoming unconditional in all respects and not being terminated in accordance with the terms set out in this Prospectus, acceptance of that application will be evidenced by the results of the Public Offer made available by the Company; and
- **agree** to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures in respect of the giving of **electronic application instructions** relating to the Public Offer Shares.

6. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED PUBLIC OFFER SHARES

You should note the following situations in which Public Offer Shares will not be allocated to you or your application is liable to be rejected:

(a) If your application is revoked:

You may only revoke your application before the fifth day after the time of the opening of the applications lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this Prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this Prospectus.

If your application has been accepted, it cannot be revoked.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

(b) If you make applications under the Public Offer as well as the Placing:

By filling in any of the Application Forms or giving **electronic application instructions** to HKSCC, you are deemed to have undertaken and confirmed that you have not indicated and will not indicate an interest, and you agree not to apply, for Placing Shares under the Placing. Reasonable steps will be taken to identify and reject applications under the Public Offer from investors who have received Placing Shares in the Placing, and to identify and reject indications of interest in the Placing from investors who have received Public Offer Shares in the Public Offer.

(c) If the Company, CITIC Capital (for itself and on behalf of the Public Offer Underwriters) or their respective agents exercise their discretion:

The Company, CITIC Capital (for itself and on behalf of the Public Offer Underwriters) or their respective agents have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

(d) If:

- your application is a multiple or a suspected multiple application;
- your Application Form is not completed correctly;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;
- you have, or the person for whose benefit you are applying has, applied for and/or received or will receive, or have or has indicated interest for, H Shares under the Placing;
- any of the Public Offer Underwriting Agreement and Placing Underwriting Agreement does not become unconditional or is terminated in accordance with the terms thereof;
- the Company believes that by accepting your application, the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is received or your address is located would be breached or violated; or
- you apply for more than 50% of Public Offer Shares initially being offered to the public for subscription,

your application is liable to be rejected.

(e) If you are giving **electronic application instructions to HKSCC to apply for Public Offer Shares on your behalf, you will also not be allocated any Public Offer Shares if HKSCC Nominees's application is not accepted.**

TERMS AND CONDITIONS OF THE PUBLIC OFFER

7. IF YOUR APPLICATION FOR THE PUBLIC OFFER SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

(a) **If you are applying using a WHITE Application Form and you elect to receive any share certificate(s) in your name:**

- Refund cheques for these applicants who apply for less than 500,000 H Shares are expected to be despatched on or before Wednesday, 10 March, 2004 to the same address as that for share certificate(s).
- Applicants who apply on **WHITE** Application Forms for 500,000 H Shares or more under the Public Offer and have indicated in their Application Forms that they wish to collect share certificates and (where applicable) refund cheques in person from the Company's Hong Kong share registrar may collect share certificates and (where applicable) refund cheques in person from the Company's Hong Kong H Share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 10 March, 2004.
- Applicants being individuals who opt for personal collection cannot authorise any other person to make collection on their behalf. Corporate applicants who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with their respective chops. Both individuals and authorised representative (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong H Share registrar.
- Uncollected share certificates and (where applicable) refund cheques will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant Application Forms.

If: (i) you are applying on a YELLOW Application Form; or (ii) you are giving electronic application instructions to HKSCC, and in each case you elect to have allocated Public Offer Shares deposited directly into CCASS:

If your application is wholly or partly successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you (on the Application Form or **electronically**, as the case may be), at the close of business on Wednesday, 10 March, 2004 or, under certain contingent situations, on any other date as shall be determined by HKSCC or HKSCC Nominees.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

(b) If you are applying using a YELLOW Application Form:

- **If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a YELLOW Application Form:**

For Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Public Offer Shares allocated to you with that CCASS Participant.

- **If you are applying as a CCASS Investor Participant on a YELLOW Application Form:**

The Company is expected to make available the results of the Public Offer, including the results of CCASS Investor Participants' applications, in the manner described in the paragraph headed "Results of allocations" in the section headed "How to apply for Public Offer Shares", on Tuesday, 9 March, 2004. You should check the results made available by the Company and report any discrepancies to HKSCC before 12:00 noon on Wednesday, 10 March, 2004 or such other date as shall be determined by HKSCC or HKSCC Nominees. On Thursday, 11 March, 2004 (being the next day following the credit of the Public Offer Shares to your stock account) you can check your new account balance via the CCASS Phone System or CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your stock account.

- Refund cheques for these applicants who apply for less than 500,000 H Shares are expected to be despatched on or before Wednesday, 10 March, 2004 to the address as set out in the **YELLOW** Application Form.
- If you apply on **YELLOW** Application Form for 500,000 H Shares or more under the Public Offer and have indicated in their Application Form that you wish to collect refund cheques in person, you may collect your refund cheque (if any) in person from the Hong Kong H Share registrar on Wednesday, 10 March, 2004. The procedure for collection of refund cheques for **YELLOW** Application Form applicants is the same as that for **WHITE** Application Form applicants set out in sub-paragraph (a) above.

(c) If you have given electronic application instructions to HKSCC:

- The Company is expected to make available the application results of the Public Offer, including the results of CCASS Participants' applications (and in the case of CCASS Broker Participants and CCASS Custodian Participants, the Company shall include information relating to the beneficial owner (where supplied)), your

TERMS AND CONDITIONS OF THE PUBLIC OFFER

Hong Kong identity card/passport/Hong Kong business registration number or other identification code (as appropriate) in the manner described in the paragraph headed “Results of allocations” in the section headed “How to apply for Public Offer Shares”, on Tuesday, 9 March, 2004. You should check the results made available by the Company and report any discrepancies to HKSCC before 12:00 noon on Wednesday, 10 March, 2004 or any other date HKSCC or HKSCC Nominees chooses.

- **If you are instructing your CCASS Broker Participant or CCASS Custodian Participant to give electronic application instructions to HKSCC on your behalf:**

You can also check the number of Public Offer Shares allocated to you and the amount of refund (if any) payable to you with that CCASS Broker Participant or CCASS Custodian Participant.

- **If you are applying as a CCASS Investor Participant by giving electronic instruction to HKSCC:**

You can also check the number of the Public Offer Shares allocated to you and the amount of refund (if any) payable to you via the CCASS Phone System or the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Tuesday, 9 March, 2004. On Thursday, 11 March, 2004 (being the next day following the credit of the Public Offer Shares to your stock account and the credit of refund to your bank account), HKSCC will also make available to you an activity statement showing the number of the Public Offer Shares credited to your stock account and the amount of refund credited to your designated bank account (if any).

- If you are applying by giving **electronic application instructions** to HKSCC to apply on your behalf, all refunds are expected to be credited to your designated bank account (if you are applying as a CCASS Investor Participant) or the designated bank account of your broker or custodian (if you are applying through a CCASS Broker/Custodian Participant) on Wednesday, 10 March, 2004.

No receipt will be issued for application monies paid.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

8. REFUND OF YOUR MONEY – ADDITIONAL INFORMATION

- (a) You will be entitled to a refund if:
- your application is not successful, in which case the Company will refund your application money together with the brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee to you without interest;
 - your application is accepted only in part, in which case the Company will refund the appropriate portion of your application money, the brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee, without interest;
 - the Offer Price (as finally determined) is less than the price per Offer Share initially paid by the applicant on application, in which case the Company will refund the surplus application money together with the appropriate portion of the brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee, without interest; and
 - the conditions of Offering are not fulfilled in accordance with the section headed “Structure of the Offering – Conditions”.
- (b) All refunds by cheque will be crossed “Account Payee Only”, and made out to you, or if you are a joint applicant, to the first-named applicant on your Application Form.
- (c) Refund cheques are expected to be despatched on Wednesday, 10 March, 2004. The Company intends to make special efforts to avoid delays in refunding money.

9. PERSONAL DATA

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company and the Hong Kong H Share registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

10. MISCELLANEOUS

(a) Commencement of dealings in the H Shares

- Dealings in the H Shares are expected to commence at 9:30 a.m. on 11 March, 2004.
- H Shares will be traded in board lots of 1,000 H Shares.
- Any H Share certificates in respect of Public Offer Shares collected or received by successful applicants will not be valid if the Offering is terminated in accordance with the terms of the Public Offer Underwriting Agreement.

(b) H Shares will be eligible for admission into CCASS

- If the Stock Exchange grants the listing of and permission to deal in the H Shares and the stock admission requirements of HKSCC are complied with, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.
- All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.
- All necessary arrangements have been made for the H Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this Prospectus, received from the Company's auditors and reporting accountants of Weichai Power Co., Ltd, Deloitte Touche Tohmatsu.

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

26 February, 2004

The Board of Directors
Weichai Power Co., Ltd.
CITIC Capital Markets Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) relating to 濰柴動力股份有限公司 Weichai Power Co., Ltd. (the “Company”) for the three years ended 31 December, 2003 (the “Track Record Period”) for inclusion in the Prospectus of the Company dated 26 February, 2004 (the “Prospectus”).

The Company was incorporated on 23 December, 2002 as a joint stock company with limited liability in the People’s Republic of China (the “PRC”) to take over and operate the business of the manufacture and sale of diesel engines WD615 and WD618 (the “Relevant Business”). Prior to the incorporation of the Company, the Relevant Business was carried on by the operating departments of 濰坊柴油機廠 (Weifang Diesel Engine Works) (“Weichai Factory”) which was established in the PRC and wholly owned by 中國重型汽車集團有限公司 (China National Heavy Duty Truck Group Co. Ltd.) (“CHDTGL”), a company established in the PRC. Pursuant to a reorganisation on 23 December, 2002, as more fully explained in the section Reorganisation of the Prospectus (the “Reorganisation”), Weichai Factory transferred the Relevant Business together with certain related assets and liabilities into the Company and in return the Company allotted and issued 80,000,000 shares of RMB1 each to Weichai Factory.

Also on 23 December, 2002, the Company further allotted and issued 6,450,000 shares of RMB1 each and 128,550,000 shares of RMB1 each, for cash at par, to Weichai Factory and certain third parties, respectively.

Upon completion of the above allotment and issue of shares, the Company was owned as to 40.21% by Weichai Factory.

The financial statements of Weichai Factory for the three years ended 31 December, 2003 which were prepared in accordance with accounting principles and financial regulations applicable to PRC enterprises (“PRC GAAP”), were audited by 山東正源和信會計師事務所, certified public accountants registered in the PRC.

The Company has prepared financial statements in accordance with PRC GAAP on the basis that the Company had carried on the Relevant Business as a continuing entity throughout the Track Record Period. These financial statements were audited by 山東正源和信會計師事務所. For the purpose of this report, we have carried out independent audit procedures we considered necessary on these financial statements in accordance with the Statements of Auditing Standards issued by the Hong Kong Society of Accountants (“HKSA”).

We have examined the Financial Information of the Company for the Track Record Period. Our examination was made in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountants” as recommended by the HKSA.

The Financial Information of the Company for the Track Record Period set out in this report has been prepared from the audited financial statements of the Relevant Business (the “Underlying Financial Statements”), on the basis set out in note 2 to the Financial Information, after making such adjustments as we considered appropriate for the purpose of preparing our report for inclusion in the Prospectus.

The Directors of the Company are responsible for preparing the Underlying Financial Statements and also for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 2 of Section I below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 December, 2001, 31 December, 2002 and 31 December, 2003, and the results and cash flows of the Company for each of the three years ended 31 December, 2003.

I. FINANCIAL INFORMATION

INCOME STATEMENTS

	<i>Notes</i>	Year ended 31 December,		
		2001 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>
Turnover	4	856,581	1,880,368	3,555,670
Cost of sales		<u>(644,445)</u>	<u>(1,454,318)</u>	<u>(2,695,351)</u>
Gross profit		212,136	426,050	860,319
Other operating income	6	3,316	12,773	31,250
Distribution expenses		(26,214)	(66,383)	(197,660)
Administrative expenses		(91,415)	(132,078)	(160,770)
Research and development expenses		(2,937)	(3,833)	(39,412)
Other operating expenses	7	<u>(2,088)</u>	<u>(2,152)</u>	<u>(7,809)</u>
Profit from operations	8	92,798	234,377	485,918
Finance costs	9	<u>(10,098)</u>	<u>(9,700)</u>	<u>(30,425)</u>
Profit before taxation		82,700	224,677	455,493
Taxation	11	<u>(4,188)</u>	<u>(57,132)</u>	<u>(178,025)</u>
Profit for the year		<u>78,512</u>	<u>167,545</u>	<u>277,468</u>
Dividend	12	<u>–</u>	<u>–</u>	<u>20,439</u>
Basic earnings per share (in RMB)	13	<u>0.98</u>	<u>2.01</u>	<u>1.29</u>
Weighted average number of shares	13	<u>80,000,000</u>	<u>83,328,767</u>	<u>215,000,000</u>

Prior to the formation of the Company on 23 December, 2002, the assessable profit of the Relevant Business was reduced by tax losses of other divisions. Had tax been payable based on the PRC income tax rate of 33% on the assessable profit of the Relevant Business, the results of the Company for the Track Record Period would have been impacted as follows:

Profit for the year		78,512	167,545	277,468
Less: Notional taxation	11	<u>(25,717)</u>	<u>(34,353)</u>	<u>–</u>
Pro forma adjusted profit for the year		<u>52,795</u>	<u>133,192</u>	<u>277,468</u>

BALANCE SHEETS

		At 31 December,		
		2001	2002	2003
	Notes	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	15	64,367	175,975	375,431
Intangible assets	16	–	–	217,780
Deposits paid for acquisition of property, plant and equipment	17	–	–	110,783
		<u>64,367</u>	<u>175,975</u>	<u>703,994</u>
Current assets				
Inventories	18	102,483	230,651	279,905
Trade debtors	19	154,479	35,704	230,302
Bills receivable	20	45,461	120,691	394,208
Deposits, prepayments and other debtors		2,908	2,157	33,702
Amounts due from related parties	14	85,143	4,087	–
Pledged bank deposits	26	–	–	391,578
Bank balances and cash		–	136,003	338,219
		<u>390,474</u>	<u>529,293</u>	<u>1,667,914</u>
Current liabilities				
Trade creditors	21	128,988	328,893	409,784
Bills payable	22	15,603	–	915,307
Other creditors and accruals		63,464	4,483	95,619
Amount due to a related party	14	–	1,003	45,427
Tax payable		–	1,698	105,327
Bank borrowings – due within one year	23	99,410	128,000	31,720
		<u>307,465</u>	<u>464,077</u>	<u>1,603,184</u>
Net current assets		<u>83,009</u>	<u>65,216</u>	<u>64,730</u>
Total assets less current liabilities		147,376	241,191	768,724
Non-current liabilities				
Amount due to a related party	14	–	–	174,224
Bank borrowings – due after one year	23	52,200	23,720	120,000
		<u>52,200</u>	<u>23,720</u>	<u>294,224</u>
		<u>95,176</u>	<u>217,471</u>	<u>474,500</u>
Owners' equity				
Share capital	24	–	215,000	215,000
Reserves		95,176	2,471	259,500
		<u>95,176</u>	<u>217,471</u>	<u>474,500</u>

STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory welfare reserve <i>RMB'000</i>	Accumulated profits <i>RMB'000</i>	Total <i>RMB'000</i>
Balance as at 1 January, 2001	–	–	–	16,664	16,664
Profit for the year	–	–	–	78,512	78,512
Balance as at 31 December, 2001 and 1 January, 2002	–	–	–	95,176	95,176
Issue of shares on assets in injection	80,000	–	–	–	80,000
Issue of new shares for cash	135,000	–	–	–	135,000
Profit for the year	–	–	–	167,545	167,545
Eliminated upon Reorganisation	–	–	–	(260,250)	(260,250)
Transfer	–	247	124	(371)	–
Balance as at 31 December, 2002 and 1 January, 2003	215,000	247	124	2,100	217,471
Profit for the year	–	–	–	277,468	277,468
Interim dividend paid	–	–	–	(20,439)	(20,439)
Transfer	–	27,394	13,696	(41,090)	–
Balance as at 31 December, 2003	215,000	27,641	13,820	218,039	474,500

CASH FLOW STATEMENTS

	Year ended 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Operating activities			
Profit from operations	92,798	234,377	485,918
Adjustments for:			
Depreciation and amortisation on property, plant and equipment	11,099	17,729	31,105
Amortisation of intangible assets	–	–	5,185
Loss on disposal of property, plant and equipment	2,088	2,106	6,775
Operating cash flows before movements in working capital	105,985	254,212	528,983
Increase in inventories	(5,061)	(128,168)	(49,254)
Decrease (increase) in trade debtors	22,591	118,775	(194,598)
Increase in bills receivable	(43,896)	(75,230)	(273,517)
(Increase) decrease in deposits, prepayments and other debtors	(1,823)	751	(31,545)
Increase in trade creditors	24,771	199,905	80,891
Increase (decrease) in bills payable	4,698	(15,603)	915,307
Increase (decrease) in other creditors and accruals	18,875	(58,981)	91,136
Cash generated from operations	126,140	295,661	1,067,403
Tax paid	(4,188)	(55,434)	(74,396)
Interest paid	(10,098)	(9,700)	(30,425)
Net cash generated from operating activities	111,854	230,527	962,582
Investment activities			
Amounts advanced to related parties	(83,541)	(146,187)	(160,229)
Amounts repaid from related parties	–	2,598	164,316
Increase in pledged bank deposits	–	–	(391,578)
Purchases of property, plant and equipment	(20,028)	(87,795)	(177,500)
Increase in deposits paid for acquisition of property, plant and equipment	–	–	(110,783)
Proceeds from disposal of property, plant and equipment	2,332	747	5,185
Net cash used in investment activities	(101,237)	(230,637)	(670,589)
Financing activities			
Dividend paid	–	–	(20,439)
Proceeds from issue of shares	–	135,000	–
Amount repaid to a related party	(10,617)	–	(72,598)
Amount advanced from a related party	–	1,003	3,260
New bank borrowings raised	–	110	151,720
Repayments of bank borrowings	–	–	(151,720)
Net cash (used in) generated from financing activities	(10,617)	136,113	(89,777)
Net increase in cash and cash equivalents	–	136,003	202,216
Cash and cash equivalents brought forward	–	–	136,003
Cash and cash equivalents carried forward, represented by bank balances and cash	–	136,003	338,219

NOTES TO THE FINANCIAL INFORMATION**1. REORGANISATION**

As described in the section Reorganisation in the Prospectus (the “Reorganisation”), the Company was incorporated to take over and operate the business of the manufacture and sale of the high-speed diesel engines WD615 and WD618 and certain related assets and liabilities. Weichai Factory retained the ownership of certain assets, liabilities and businesses not assumed by the Company, including medium-speed diesel engines and small-sized diesel engines.

2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Financial Information presents the results, cash flows and financial position of the Company on the basis that the Company, for the purpose of this report, is regarded as a continuing entity and that the Reorganisation had been completed as at the beginning of the Track Record Period and the Relevant Business had been conducted by the Company throughout the Track Record Period. The assets and liabilities transferred from Weichai Factory to the Company on 23 December, 2002 were based on historical amounts at which they were recorded in the books of Weichai Factory, except for property, plant and equipment which was transferred at revalued amounts as required by the relevant PRC regulations for the purpose of establishing the capital contribution from Weichai Factory upon the incorporation of the Company.

The Financial Information includes all the revenue attributable to the Relevant Business and the related costs of operations. The costs of operations comprise those costs that are specifically identified as relating to the Relevant Business and also certain costs allocated to the Relevant Business that are based on the percentage of the revenue of the Relevant Business to that of Weichai Factory. Costs and expenses that are specifically identified to the Related Business include the followings:

- Material costs;
- Staff costs (other than those attributable to general and administrative staff);
- Depreciation and amortisation;
- Research and development expenses;
- Bad debts;
- Taxes other than income taxes; and
- Finance costs.

Costs and expenses for which specific identification was not practical include only certain distribution expenses and administrative expenses which have been allocated to the Relevant Business based on the percentage of the revenue of the Relevant Business to that of Weichai Factory. The Directors have represented to us that they consider that this basis of allocation is appropriate.

For the purpose of this report, the reference to the “Company” includes the Relevant Business prior to the Reorganisation.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost convention.

The principal accounting policies which have been adopted in preparing the Financial Information and which conform to accounting principles generally accepted in Hong Kong (“Hong Kong GAAP”) are as follows:

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

NOTES TO THE FINANCIAL INFORMATION**3. SIGNIFICANT ACCOUNTING POLICIES – continued****Operating leases**

Rental expenses under operating leases are recognised on a straight-line basis over the terms of the relevant lease.

Foreign currencies

Transactions in currencies other than Renminbi (“RMB”) are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in other currencies are retranslated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Company’s obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development cost incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxation profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arise from goodwill or negative goodwill or from the initial recognition, other than in a business combination, of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

NOTES TO THE FINANCIAL INFORMATION

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation and accumulated impairment losses.

Construction in progress for production or administrative purposes is carried at cost, less any identified impairment loss. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Land use right is amortised over the period of the right using the straight-line method.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	20 years
Plant and equipment	10 years
Computer, equipment and fixtures	5 years
Motor vehicles	5 years

As part of the Reorganisation and as required by the relevant PRC regulations, a valuation of the property, plant and equipment relating to the Relevant Business was performed by 北京中企華資產評估有限責任公司, a Certified Assets Appraiser registered under the relevant PRC regulations, in order to determine the fair value of such property, plant and equipment for the purpose of establishing the capital contribution from Weichai Factory upon the incorporation of the Company. The result of this valuation was considered as an adjustment to the cost of property, plant and equipment and the net surplus arising thereon was credited to the Head Office account which was subsequently capitalised as Weichai Factory’s share capital contribution to the Company.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Technologies

Technologies are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

NOTES TO THE FINANCIAL INFORMATION

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Trade debtors

Provision is made against trade debtors to the extent they are considered to be doubtful. Trade debtors in the balance sheets are stated net of such provision.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

4. TURNOVER

Turnover represents the amounts received and receivable for goods sold by the Company during the Track Record Period.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Company was solely engaged in the business of manufacture and sale of WD615 and WD618 diesel engines and substantially all of the Company’s turnover and operating results were derived from the PRC and accordingly, no analysis of business and geographical segment is presented.

6. OTHER OPERATING INCOME

	Year ended 31 December,		
	2001	2002	2003
	RMB’000	RMB’000	RMB’000
Other operating income includes:			
Gain on sales of scrap and other materials	3,316	4,603	19,713
Amounts waived by trade creditors (<i>Note</i>)	–	8,170	3,931
Sales and warranty period repair services fee income	–	–	2,462
Bank interest income	–	–	2,343
Others	–	–	2,801
	<u>3,316</u>	<u>12,773</u>	<u>31,250</u>

Note: These represented amounts due to certain suppliers, repayment of which was waived by the suppliers following negotiation between the Company and these suppliers regarding the quality and billings of certain purchases made in previous years.

7. OTHER OPERATING EXPENSES

	Year ended 31 December,		
	2001	2002	2003
	RMB’000	RMB’000	RMB’000
Other operating expenses include:			
Loss on disposal of property, plant and equipment	2,088	2,106	6,775
Others	–	46	1,034
	<u>2,088</u>	<u>2,152</u>	<u>7,809</u>

NOTES TO THE FINANCIAL INFORMATION

8. PROFIT FROM OPERATIONS

	Year ended 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Profit from operations has been arrived at after charging:			
Depreciation and amortisation			
on property, plant and equipment	11,099	17,729	31,105
Amortisation of intangible assets	—	—	5,185
Auditors' remuneration	23	155	863
Provision for bad and doubtful debts	3,204	11,250	11,566
Directors' and supervisors' emoluments	152	206	1,964
Staff costs excluding Directors' and supervisors' emoluments	71,495	114,942	140,400
Retirement benefits scheme contributions, excluding amounts included in Directors' and supervisors' emoluments	12,909	17,558	22,586
Total staff costs	84,556	132,706	164,950

9. FINANCE COSTS

During the Track Record Period, the finance costs represented interest expenses on bank borrowings wholly repayable within five years.

10. DIRECTORS AND EMPLOYEES' EMOLUMENTS

(a) Directors' and supervisors' emoluments

	Year ended 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Fees:			
Executive Directors	—	—	—
Supervisors	—	—	—
Non-executive Directors	—	—	—
Independent non-executive Directors	—	—	—
	—	—	—
Other emoluments (Directors):			
Salaries and other allowances:			
— Executive Directors	78	107	1,130
— Non-executive Directors	19	5	400
— Independent non-executive Directors	—	—	246
	97	112	1,776
Retirement benefits scheme contributions:			
— Executive Directors	7	15	23
— Non-executive Directors	2	—	—
— Independent non-executive Directors	—	—	—
	9	15	23
	106	127	1,799
Other emoluments (Supervisors):			
Salaries and other allowances	41	71	160
Retirement benefits scheme contributions	5	8	5
	46	79	165
	152	206	1,964

NOTES TO THE FINANCIAL INFORMATION

10. DIRECTORS AND EMPLOYEES' EMOLUMENTS – continued

(b) Employees' emoluments

The five highest paid individuals of the Company included none, none and 4 executive Directors of the Company for each of the Track Record Period, details of whose emoluments are set out above. The emoluments of the remaining highest paid individual(s) are as follows:

	Year ended 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Salaries and other allowances	198	315	260
Retirement benefits scheme contributions	8	17	6
	<u>206</u>	<u>332</u>	<u>266</u>

During the Track Record Period, none of the Directors nor any of the five highest paid individuals of the Company had emoluments exceeding HK\$1 million.

During the Track Record Period, no emoluments were paid by the Company to the Directors, supervisors nor the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office. None of the Directors nor any of the Directors had waived any emoluments during the year.

11. TAXATION

Prior to the Reorganisation, the Relevant Business was part of Weichai Factory whose returns to the tax authority included the results of the Relevant Business. The PRC income tax rate applicable to Weichai Factory is 33% on its assessable profit determined in accordance with PRC GAAP.

In addition, pursuant to 國稅函【2002】123號(Guo Shui Han【2002】No. 123) and 國稅函【2002】360號(Guo Shui Han【2002】No. 360), the holding company of Weichai Factory, CHDTGL, was entitled to file consolidated tax return, which included that of Weichai Factory, for each of the two years ended 31 December, 2002.

Following its incorporation, the Company is also subject to PRC income tax at a rate of 33% on its assessable profit determined in accordance with the relevant PRC GAAP.

NOTES TO THE FINANCIAL INFORMATION

11. TAXATION – continued

For the purpose of this report, the PRC income tax attributable to the Company is calculated at 33% on its assessable profit as follows:

	Year ended 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Profit before taxation	82,700	224,677	455,493
At PRC income tax rate of 33%	27,291	74,143	150,313
Tax effect of expenses not deductible for PRC income tax	2,614	17,342	27,712
	29,905	91,485	178,025
Reconciled as:			
Tax payable by the Company as a legal entity since its incorporation and included in the income statements	–	1,698	178,025
Share of PRC income tax of Weichai Factory (note)	4,188	55,434	–
	4,188	57,132	178,025
Notional tax assuming assessable profit of the Relevant Business was taxable at 33% (note)	25,717	34,353	–
	29,905	91,485	178,025

Note: The assessable profits of Weichai Factory as a whole was reduced by tax losses incurred by divisions other than the Relevant Business. As a result, the PRC income tax payable by Weichai Factory was less than what it would have had to pay had the Relevant Business been a stand-alone tax paying entity. Accordingly, notional tax has been presented to reflect the tax position of the Relevant Business assuming that it was liable to PRC income tax at the statutory tax rate of 33%.

There was no significant unprovided deferred taxation arising during the Track Record Period or as at the respective balance sheet date.

12. DIVIDEND

No dividend has been paid or declared by the Company for each of the two years ended 31 December, 2002.

In December 2003, the Company paid an interim dividend of RMB0.095 per share amounting to RMB20,439,000 to its shareholders.

On 19 December, 2003, a final dividend of RMB0.105 per share amounting to RMB22,575,000 was proposed by the Directors for the year ended 31 December, 2003.

NOTES TO THE FINANCIAL INFORMATION

13. EARNINGS PER SHARE

Basic earnings per share for the Track Record Period have been computed by dividing the net profit for the year by the weighted average number of shares issued and issuable as if the Reorganisation had taken place on 1 January, 2001.

The Company had no potentially dilutive shares outstanding during the Track Record Period.

14. RELATED AND CONNECTED PARTY DISCLOSURE

(a) During the Track Record Period, the Company had the following significant transactions with related and connected parties:

Related and connected party	Notes	Year ended 31 December,		
		2001 RMB'000	2002 RMB'000	2003 RMB'000
China Heavy Duty Truck Group (i):				
Sales of goods	(iv)	218,126	409,831	807,930
Sales of semi-finished diesel engine parts	(v)	17,450	85,561	66,252
Purchases of materials other than semi-finished diesel engine parts	(iv)	120,767	393,670	602,725
Purchases of semi-finished diesel engine parts	(v)	94,426	188,295	169,731
Management fee paid	(v)	8,534	4,304	–
General services fee paid	(vi)	–	–	13,287
Utility services fee paid	(vii)	–	–	62,454
Processing services fee	(viii)	–	–	31,219
Sales and warranty period repair services fee income	(ix)	–	–	2,462
Purchases of property, plant and equipment	(x)	–	–	65,021
Disposal of property, plant and equipment	(v)	–	–	4,296
Purchase of technologies	(xi)	–	–	222,965
Trademarks fee paid	(xii)	–	–	15,552
Technologies fee paid	(xiii)	–	–	57,035
Rental paid for certain land and buildings, machinery and equipment	(xiv)	–	–	23,109
Fujian Longgong Group (ii):				
Sales of goods	(iv)	33,630	89,840	216,378
Guangxi Liugong Group (iii):				
Sales of goods	(iv)	36,866	140,807	221,525

Notes:

- (i) CHDTGL together with its affiliates are collectively referred as the “China Heavy Duty Truck Group”.
- (ii) 福建龍岩工程機械(集團)有限公司 (“Fujian Longgong”) was a 10% shareholder of the Company at 31 December, 2003. Fujian Longgong together with its affiliates are collectively referred as the “Fujian Longgong Group”.
- (iii) 廣西柳工集團有限公司 (“Guangxi Liugong”) held 2.33% interest in the Company at 31 December, 2003. Guangxi Liugong together with its affiliates are collectively referred as the “Guangxi Liugong Group”.

NOTES TO THE FINANCIAL INFORMATION

14. RELATED AND CONNECTED PARTY DISCLOSURE – continued

- (iv) These transactions were carried out at market prices.
- (v) These transactions were carried out on terms mutually agreed by the relevant parties.
- (vi) The general services fee was based on the actual cost incurred plus 20% service charge.
- (vii) The utility services fee was based on the actual usage and with reference to market prices or, where no market prices were available, at actual cost incurred plus 20% service charge.
- (viii) The processing services fee was based on the actual cost incurred plus 20% service charge.
- (ix) The sales and warranty period repair services fee income was based on 3% on the sales of medium speed diesel engines on behalf of Weichai Factory.
- (x) The consideration for the acquisition of the plant and equipment was based on a valuation report of the related assets prepared by Vigers Appraisal & Consulting Limited (“Vigers”) dated 30 June, 2003.
- (xi) The consideration for the acquisition of technologies was based on a valuation report of the relevant intangible assets prepared by Vigers.
- (xii) The trademarks fee was calculated with reference to a valuation prepared by Vigers of the relevant trademarks as of 1 January, 2003.
- (xiii) The technologies fee was calculated with reference to a valuation prepared by Vigers of the relevant technologies as of 1 January, 2003.
- (xiv) The annual rental for certain land and buildings, machinery and equipment was calculated with reference to the valuations prepared by Vigers of the relevant land and buildings, machinery and equipment.

The Directors have confirmed that the above transactions were carried out in the ordinary course of the Company's business. In addition, the Directors have confirmed that, after the listing of the Company's shares on The Stock Exchange of Hong Kong Limited, (i) the sales and purchase transactions will continue on market terms, or if no market prices are available, at cost plus a percentage mark up; (ii) the general services, the utility services, the annual rental for certain land and buildings, machinery and equipment, the processing services fee and sales and warranty period repair services fee income will continue on similar terms; (iii) the management fee will discontinue; and (iv) the acquisition and disposal of property, plant and equipment, if any, will be based on market value of the relevant asset.

NOTES TO THE FINANCIAL INFORMATION

14. RELATED AND CONNECTED PARTY DISCLOSURE – continued

- (b) Details of the trading balances with related parties are set out in notes 19 and 21.
- (c) Details of the non-trade balances with related parties are as follows:

Name of related company	At 31 December,			Maximum amount outstanding during the year ended		
	2001	2002	2003	2001	2002	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from related parties:						
China Heavy Duty Truck Group	1,602	4,087	–	1,602	4,087	–
Head Office account*	83,541	–	–	83,541	83,541	–
	<u>85,143</u>	<u>4,087</u>	<u>–</u>	<u>85,143</u>	<u>83,541</u>	<u>–</u>

Amount due to a related party:

China Heavy Duty Truck Group	–	1,003	219,651
	<u>–</u>	<u>1,003</u>	<u>219,651</u>

* This represented the current account with Weichai Factory, the balance of which was eliminated upon Reorganisation.

As at 31 December, 2003, included in the balance due to China Heavy Duty Truck Group was an amount of approximately RMB217,780,000 which represented the balance of the consideration payable for the acquisition of technologies from Weichai Factory. The amount is repayable as follows:

	At 31 December, 2003
	RMB'000
Within one year	43,556
In the second year	43,556
In the third to fifth year inclusive	<u>130,668</u>
	<u>217,780</u>
Less: Amount due for settlement within one year (included under current liabilities)	<u>43,556</u>
	<u>174,224</u>

The amount is unsecured, interest-free and repayable in instalments over a period of 5 years.

- (d) Banking facilities

As at 31 December, 2001 and 31 December, 2002, certain assets of the Company and that of Weichai Factory were pledged to banks as joint collaterals for facilities granted to the Company and Weichai Factory. Details of the Company's assets pledged for this purpose are set out in note 26.

In addition, for the period from 17 April, 2003 to 16 September, 2003, China Heavy Duty Truck Group provided a guarantee to a bank in respect of banking facilities granted to the Company. The guarantee was cancelled on 16 September, 2003.

NOTES TO THE FINANCIAL INFORMATION

15. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress <i>RMB'000</i>	Land and buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Computer, equipment and fixtures <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
COST						
At 1 January, 2001	4,007	30,924	133,457	21,095	8,055	197,538
Additions	14,366	–	2,372	825	2,465	20,028
Transfer	(5,386)	–	5,386	–	–	–
Disposals	–	(543)	(3,725)	(601)	(2,302)	(7,171)
At 31 December, 2001 and 1 January, 2002	12,987	30,381	137,490	21,319	8,218	210,395
Additions	67,394	1,524	9,197	4,648	5,032	87,795
Transfer	(45,308)	2,063	43,245	–	–	–
Revaluation surplus (<i>note iii</i>)	–	6,740	(89,902)	(15,461)	(2,605)	(101,228)
Disposals	–	–	(3,107)	(3,433)	(3,037)	(9,577)
At 31 December, 2002 and 1 January, 2003	35,073	40,708	96,923	7,073	7,608	187,385
Additions	149,498	14,004	4,945	4,176	4,877	177,500
Additions from China Heavy Duty Truck Group	–	–	64,508	131	382	65,021
Transfer	(36,457)	259	27,264	5,298	3,636	–
Disposals	–	–	(11,711)	(1,106)	(843)	(13,660)
At 31 December, 2003	148,114	54,971	181,929	15,572	15,660	416,246
DEPRECIATION AND AMORTISATION						
At 1 January, 2001	–	12,221	103,595	17,536	4,328	137,680
Provided for the year	–	825	7,872	1,559	843	11,099
Eliminated on disposals	–	(473)	(979)	(510)	(789)	(2,751)
At 31 December, 2001 and 1 January, 2002	–	12,573	110,488	18,585	4,382	146,028
Provided for the year	–	1,539	12,853	2,033	1,304	17,729
Eliminated on revaluation	–	(12,553)	(113,900)	(16,216)	(2,954)	(145,623)
Eliminated on disposals	–	–	(1,953)	(2,675)	(2,096)	(6,724)
At 31 December, 2002 and 1 January, 2003	–	1,559	7,488	1,727	636	11,410
Provided for the year	–	3,266	22,982	2,381	2,476	31,105
Eliminated on disposals	–	–	(1,307)	(263)	(130)	(1,700)
At 31 December, 2003	–	4,825	29,163	3,845	2,982	40,815
NET BOOK VALUE						
At 31 December, 2001	12,987	17,808	27,002	2,734	3,836	64,367
At 31 December, 2002	35,073	39,149	89,435	5,346	6,972	175,975
At 31 December, 2003	148,114	50,146	152,766	11,727	12,678	375,431

NOTES TO THE FINANCIAL INFORMATION

15. PROPERTY, PLANT AND EQUIPMENT – continued

- Notes:
- (i) The land use right is held under medium-term lease in respect of a land situated in the PRC.

(ii) All buildings are situated in the PRC.

(iii) The revaluation was required pursuant to the relevant PRC regulations in order to determine the fair value of such property, plant and equipment for the purpose of establishing the capital contribution from Weichai Factory upon the incorporation of the Company. The result of this valuation was considered as an adjustment to the cost of property, plant and equipment and the net surplus arising thereon was credited to the Head Office account which was subsequently capitalised as Weichai Factory’s share capital contribution to the Company.

16. INTANGIBLE ASSETS

	Technologies RMB'000
COST	
At 1 January, 2001, 1 January, 2002 and 1 January, 2003	–
Additions from China Heavy Duty Truck Group (<i>Note</i>)	222,965
At 31 December, 2003	222,965
AMORTISATION	
At 1 January, 2001, 1 January, 2002 and 1 January, 2003	–
Charge for the year	5,185
At 31 December, 2003	5,185
NET BOOK VALUE	
At 31 December, 2001	–
At 31 December, 2002	–
At 31 December, 2003	217,780

Note: In November 2003, the Company acquired certain technologies from Weichai Factory for a consideration of RMB280 million. Such consideration was reduced by the technologies fee payable by the Company to Weichai Factory for the period from 1 January, 2003 to the date of formal transfer of the relevant assets. Upon acquisition, the capitalised cost of technologies is amortised on a straight-line basis over a period up to 30 June, 2007.

NOTES TO THE FINANCIAL INFORMATION

17. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

As at 31 December, 2003, the amount represented the deposits paid to certain vendors for the acquisition of property, plant and equipment. Details of the related capital commitments are set out in note 27.

18. INVENTORIES

	At 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Raw materials	53,873	96,342	130,389
Work-in-progress	9,208	8,737	34,933
Finished goods	39,402	125,572	114,583
	<u>102,483</u>	<u>230,651</u>	<u>279,905</u>

As at the respective balance sheet date, no inventories of the Company were stated at net realisable value.

19. TRADE DEBTORS

The credit terms granted by the Company to its customers are generally similar and are normally in the range from 30 days to 90 days. However, customers with established trading records could be granted longer credit period. An analysis of trade debtors is as follows:

	At 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Third party customers	74,368	23,914	198,583
Related party customers	80,111	11,790	31,719
	<u>154,479</u>	<u>35,704</u>	<u>230,302</u>

An aging analysis is as follows:

	At 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Within 90 days	106,129	25,286	200,323
Between 91 to 180 days	23,521	3,725	17,936
Between 181 to 365 days	9,577	6,549	5,975
Over 365 days	15,252	144	6,068
	<u>154,479</u>	<u>35,704</u>	<u>230,302</u>

20. BILLS RECEIVABLE

These are bank acceptance bills with maturity periods ranging from one to six months. These bills are endorsable.

At 31 December, 2003, bills receivable of approximately RMB77,115,000 were pledged to secure banking facilities granted to the Company.

NOTES TO THE FINANCIAL INFORMATION

21. TRADE CREDITORS

An analysis of trade creditors is as follows:

	At 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Third party suppliers	111,112	138,925	382,858
Related party suppliers	17,876	189,968	26,926
	<u>128,988</u>	<u>328,893</u>	<u>409,784</u>

An aging analysis is as follows:

	At 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Within 90 days	123,914	221,548	339,144
Between 91 to 180 days	4,082	61,577	56,972
Between 181 to 365 days	967	45,276	8,272
Over 365 days	25	492	5,396
	<u>128,988</u>	<u>328,893</u>	<u>409,784</u>

22. BILLS PAYABLE

These are bank acceptance bills issued by the Company. They are interest-free and with maturity periods ranging from one to six months.

23. BANK BORROWINGS

	At 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Bank borrowings are analysed as:			
Unsecured	–	–	151,720
Secured	151,610	151,720	–
	<u>151,610</u>	<u>151,720</u>	<u>151,720</u>

The maturity of the bank borrowings is as follows:

On demand or within one year	99,410	128,000	31,720
More than one year but not exceeding two years	–	23,720	120,000
More than two years, but not exceeding five years	52,200	–	–
	<u>151,610</u>	<u>151,720</u>	<u>151,720</u>
Less: Amount due within one year shown under current liabilities	(99,410)	(128,000)	(31,720)
Amount due after one year	<u>52,200</u>	<u>23,720</u>	<u>120,000</u>

Details of the security for the above bank borrowings are set out in note 26.

NOTES TO THE FINANCIAL INFORMATION

24. SHARE CAPITAL

The Company was incorporated on 23 December, 2002 with a registered share capital of RMB215,000,000 divided into 215,000,000 shares of RMB1 each.

Pursuant to the Reorganisation, on 23 December, 2002 the Company issued and allotted 80,000,000 shares of RMB1 each, credited as fully paid at par, to Weichai Factory as consideration for the acquisition of the Relevant Business.

Also on 23 December, 2002, the Company further issued and allotted 6,450,000 shares of RMB1 each and 128,550,000 shares of RMB1 each, for cash at par, to Weichai Factory and certain third parties, respectively.

Other than the above, there were no movements in the registered share capital of the Company during the Track Record Period.

25. CONTINGENT LIABILITIES

At the respective balance sheet date, the Company had the following contingent liabilities:

	At 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Guarantees given to banks in respect of banking facilities granted to a customer	45,720	—	—

26. PLEDGE OF ASSETS

	At 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
The following assets of the Company were pledged for facilities granted to the Company and Weichai Factory:			
Buildings	12,719	12,635	—
Plant and machinery	84,297	82,488	—
	97,016	95,123	—

As at 31 December, 2001 and 31 December, 2002, the above assets and certain assets of Weichai Factory were pledged to banks as joint collaterals for facilities granted to the Company and Weichai Factory. These banking facilities were fully repaid in April 2003 and the pledge of assets was released accordingly.

As at 31 December, 2003, bank deposits and bills receivable of approximately RMB391,578,000 and RMB77,115,000 respectively were pledged to secure banking facilities granted to the Company.

NOTES TO THE FINANCIAL INFORMATION

27. CAPITAL COMMITMENTS

At the respective balance sheet date, the Company had the following capital commitments:

	At 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of:			
Purchase of property, plant and equipment	5,590	43,963	208,287
Acquisition of trademarks	—	—	124,448
	<u>5,590</u>	<u>43,963</u>	<u>332,735</u>

28. OTHER COMMITMENTS

In August 2003, in conjunction with the China Heavy Duty Truck Group, the Company entered into a research and development contract with AVL List GmbH, (“AVL”), a third party, with a contract sum of Euro 6.1 million (equivalent to approximately RMB63,586,000).

As at 31 December, 2003, the outstanding commitment amounted to approximately Euro 3,965,000 (equivalent to approximately RMB41,331,000).

29. OPERATING LEASE ARRANGEMENTS

The Company as lessee

	Year ended 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Minimum lease payments paid under operating leases during the Track Record Period:			
Plant and machinery	—	—	15,059
Premises	1,239	1,633	10,372
	<u>1,239</u>	<u>1,633</u>	<u>25,431</u>

At the respective balance sheet date, the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 31 December,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Within one year	818	1,113	47,296
In the second to fifth year inclusive	314	683	162,383
Over five years	33	—	—
	<u>1,165</u>	<u>1,796</u>	<u>209,679</u>

NOTES TO THE FINANCIAL INFORMATION**30. RETIREMENT BENEFITS SCHEMES**

As stipulated by the rules and regulations in the PRC, the Company contributes 20% of applicable salaries of its employees to a state-managed retirement plan for its employees in the PRC. After the contribution, the Company has no further obligation for the actual payment of the retirement benefits. The state-managed retirement plan is responsible for the entire obligation to the retired employees.

II. DIRECTORS' AND SUPERVISORS' REMUNERATION

Save as disclosed in this report, no remuneration was paid or is payable by the Company to its Directors in respect of the Track Record Period.

Under the arrangement presently in force, the aggregate amount of the Directors' and supervisors' fees and other emoluments for the year ending 31 December, 2004 is estimated to be approximately RMB2,174,000.

III. DISTRIBUTABLE RESERVE

According to the Company's Articles of Association, distribution of profit by the Company is determined with reference to the profit as reported under PRC GAAP or Hong Kong GAAP, whichever is less.

As the Company was incorporated on 23 December, 2002, the distributable reserves of the Company at 31 December, 2002 and 31 December, 2003 were RMB2,100,000 and RMB191,933,000 respectively.

IV. SUBSEQUENT EVENTS

The following transaction took place subsequent to 31 December, 2003:

At an extraordinary general meeting of the Company held on 18 February, 2004, shareholders' resolution were passed to declare the final dividend of RMB0.105 per share for the year ended 31 December, 2003.

V. SUBSEQUENT FINANCIAL STATEMENTS

The Company has not prepared any audited financial statements for any period subsequent to 31 December, 2003.

Yours faithfully
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

PRO FORMA FINANCIAL INFORMATION

The information set out below has been prepared by the Directors and does not form part of the accountants' report prepared by Deloitte Touche Tohmatsu, the reporting accountants of the Company, as set out in appendix I to this Prospectus, and is included for reference purpose only. Deloitte Touche Tohmatsu express no opinion on the following information.

The Company was established in the PRC on 23 December, 2002 as a joint stock limited company as part of the reorganisation of Weifang Diesel Engine Works ("Weichai Factory") to take over the business of the manufacture and sale of the WD615 and WD618 Engines (the "Relevant Business") from Weichai Factory and to operate such business thereafter. Weichai Factory retains the ownership of certain assets, liabilities and businesses not assumed by the Company, including the manufacture and sale of medium-speed diesel engines and small-sized diesel engines. In addition, Weichai Factory continues to provide certain ancillary and supporting services to the Company.

In preparing the financial information relating to the results of the Relevant Business for the three years ended 31 December, 2003, sales specific to the Relevant Business and the related historical costs of operations have been included.

Since the Reorganisation as mentioned above, the Company operates as a stand alone entity. For the year ended 31 December, 2003, the Company and the China Heavy Duty Truck Group entered into certain new agreements for a range of services which may be required and requested by either party, as well as the acquisition of certain intangible assets by the Company from the China Heavy Duty Truck Group (collectively referred to as the "New Transactions"). The New Transactions will have an impact on the Company's overall results of operation. The pro forma income statements below for each of the three years ended 31 December, 2003 have been prepared based on the historical income statements of the Company as set out in appendix I to this Prospectus, after giving effect to the pro forma adjustments described in the accompanying notes thereto, as if the Reorganisation and the New Transactions had been in effect on 1 January, 2001. A narrative description of the pro forma effects of the New Transactions that are (i) directly attributable to the Company; (ii) expected to have a continuing impact on the Company; and (iii) factually supportable, are summarised in the notes to the pro forma financial information below.

The pro forma financial information does not purport to describe the actual results of operations that would have been achieved had the effect of the New Transactions occurred on the dates indicated, nor does it purport to predict the Company's future results of operations. The pro forma adjustments are not actual service fees or income incurred by the Company and they are not reflected in the accountants' report.

The pro forma financial information should be read in conjunction with the historical financial information, including the notes thereto, the management's discussion and analysis, and other financial information included elsewhere in this Prospectus.

Had the current terms and agreements related to the transactions with the China Heavy Duty Truck Group been effective at the beginning of the Track Record Period, the results of the Company for the Track Record Period would have been impacted as follows:

		Year ended 31 December,		
	Notes	2001	2002	2003
		RMB'000	RMB'000	RMB'000
Profit for the year (after notional taxation)		52,795	133,192	277,468
<i>Notional additional income (expenses)</i>				
<i>attributable to the Company:</i>				
General services fee	(i)	(1,567)	(1,810)	–
Utility services fee	(ii)	(1,127)	(2,261)	–
Service charge for finished diesel engine parts supply	(iii)	(974)	(2,076)	(488)
Sales and warranty period repair services fee income	(iv)	7,325	11,000	4,713
Amortisation of trademarks	(v)	(15,556)	(15,556)	–
Amortisation of technologies	(vi)	(62,222)	(62,222)	–
Rental expenses for certain land and buildings, machinery and equipment	(vii)	(37,155)	(38,706)	(23,109)
Profit attributable to the buildings and equipment leased from Weichai Factory	(viii)	3,052	26,777	42,426
Additional depreciation for the property, plant and equipment of the Company	(ix)	<u>(3,465)</u>	<u>(3,478)</u>	<u>–</u>
Total pro forma (expenses) income attributable to the Company		(111,689)	(88,332)	23,542
Taxation for the above pro forma (expenses) income	(x)	<u>36,857</u>	<u>29,150</u>	<u>(7,769)</u>
Net (decrease) increase in profit for the year		<u>(74,832)</u>	<u>(59,182)</u>	<u>15,773</u>
Pro forma adjusted (loss) profit for the year (in RMB'000)		<u>(22,037)</u>	<u>74,010</u>	<u>293,241</u>
(in HKD'000)		<u>(20,790)</u>	<u>69,821</u>	<u>276,642</u>

Notes:

- i. Adjustments were made to reflect the assumption that general services agreement had been in place since 1 January, 2001. No adjustments to the year ended 31 December, 2003 is necessary as general services fee of a comparable amount was paid by the Company to Weichai Factory during the same period.
- ii. Adjustments were made to reflect the assumption that the utility services agreement had been in place since 1 January, 2001. No adjustments to the year ended 31 December, 2003 is necessary as utility services fee of a comparable amount was paid by the Company to Weichai Factory during the same period.
- iii. Adjustments were made to reflect the assumption that the finished diesel engine parts supply agreement had been in place since 1 January, 2001. The adjustments made for the year ended 31 December, 2003 represented the service charge for the period from 1 January, 2003 to 30 June, 2003 as the service charge for the period from 1 July, 2003 to 31 December, 2003 has been incorporated in the historical results of the Company.
- iv. Adjustments were made to reflect the assumption that the sales and warranty repair services agreement had been in place since 1 January, 2001. The adjustments made for the year ended 31 December, 2003 represented the service fee income that would have been receivable for the period from 1 January, 2003 to 31 August, 2003 as the service income received during the period from 1 September, 2003 to 31 December, 2003 has been incorporated in the historical results of the Company.
- v. Adjustments were made to include the amortisation charge of the trademarks which were acquired by the Company for RMB140 million on the assumption that the trademarks had been acquired on 1 January, 2001 and had been amortised over a period of 9 years. No adjustments to the year ended 31 December, 2003 is necessary as a trademark fee of a comparable amount was paid by the Company to Weichai Factory during the same period.
- vi. Adjustments were made to include the amortisation charge of the technologies which were acquired by the Company for RMB280 million on the assumption that the technologies had been acquired on 1 January, 2001 and had been amortised over a period of 4½ years. No adjustments to the year ended 31 December, 2003 is necessary as a technology fee of a comparable amount was paid by the Company to Weichai Factory during the same period.
- vii. Adjustments were made to include the rental from the leasing of land and buildings, machinery and equipment leased from Weichai Factory for the Track Record Period on the assumption that the assets were leased at rental set out in Vigers Appraisal & Consulting Limited's report. The adjustments for the year ended 31 December, 2003 represented the rental for the period from 1 January, 2003 to 30 June, 2003 as the rental for the period from 1 July, 2003 to 31 December, 2003 has been incorporated in the historical results of the Company.
- viii. Adjustments were made for the profit attributable to operating the buildings and equipment leased from Weichai Factory for the Track Record Period on the assumption that the leasing of buildings and equipment had been effective on 1 January, 2001. Adjustments made for the year ended 31 December, 2003 represented the profit attributable to operating the buildings and equipment leased from Weichai Factory for the period from 1 January, 2003 to 30 June, 2003 as the relevant profit attributable to operating the buildings and equipment for the period from 1 July, 2003 to 31 December, 2003 has been incorporated in the historical results of the Company.
- ix. Adjustments were made for additional depreciation for the Track Record Period on the assumption that the revaluation of the Company's property, plant and equipment upon Reorganisation as at 23 December, 2002 had been recorded on 1 January, 2001. The additional depreciation resulting from the revaluation for the year ended 31 December, 2003 has been incorporated in the historical results of the Company.
- x. Adjustments were made to adjust for the taxation effect of the above pro forma adjustments as well as the tax payable on the assessable profit of the Company for the Track Record Period using the statutory rate of 33% as applicable to the Company. Deferred taxation on tax losses created by the above pro forma adjustments are not taken into account.

The following is the text of a letter and a valuation certificate, prepared for the purpose of incorporation in the Prospectus dated 26 February, 2004 issued by the Company, received from Vigers Appraisal & Consulting Limited, an independent property valuer, in connection with its valuation as at 31 December, 2003.

Vigers Appraisal & Consulting Limited
International Property Consultants



10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

26 February, 2004

The Directors
Weichai Power Co., Ltd.
26 Minshengdong Street
Kuiwen District
Weifang City
Shandong Province
the PRC

Dear Sirs,

In accordance with your instructions for us to value the property interests of Weichai Power Co., Ltd. (the “Company”) in the Hong Kong Special Administrative Region (referred hereinafter as “Hong Kong”) and in the People’s Republic of China (referred hereinafter as the “PRC”), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market value of such property interests as at 31 December, 2003 (the “date of valuation”).

Our valuation is our opinion of the open market value which we would define as intended to mean – “the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation assuming:–

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;

- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

In valuing the property interests in Group I, which is held and occupied by the Company in the PRC, we have adopted a combination of the market and depreciated replacement cost approach in assessing the land portion of the property and the buildings and structures standing on the land respectively. Hence, the sum of the two results represents the market value of the property as a whole. In the valuation of the land portion, reference has been made to the standard land price in Shandong Province and the sales evidence as available to us in the locality. As the nature of the buildings and structures cannot be valued on the basis of open market value, they have therefore been valued on the basis of their depreciated replacement costs. The depreciated replacement cost approach considers the cost to reproduce or replace in new condition the property appraised in accordance with current construction costs for similar property in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales.

In the course of our valuation, we have assumed that the buildings which are under construction will be built in accordance with the latest design given to us by the Company. Moreover, all consents, approvals and licences from relevant PRC Government authorities for development of these buildings are assumed to be granted without any onerous conditions or undue delay.

The properties in Group II to Group IV have no commercial value due to their short-term nature, prohibition against transfer, subletting or otherwise due to lack of substantial profit rent.

Our valuation has been made on the assumption that the owner sells the property interest on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interest.

We have been provided with extracts from title documents relating to such property interests. We have not, however, searched the original documents to verify ownership or existence of any amendment which does not appear on the copies handed to us. All documents and leases have been used for reference only. All dimensions, measurements and areas are approximations.

In undertaking our valuation for property in Group I, we have relied on the legal opinion provided by the Company’s PRC legal adviser (“the PRC Legal Opinion”).

For the PRC Legal Opinion, we understand the current status of titles, grant of major approvals, licences and documents of the property in Group I are as follows:

No.	Document	Status
1.	State-owned Land Use Rights Grant Contract	Yes
2.	State-owned Land Use Rights Certificate	Yes
3.	Building Ownership Certificates	Yes

We have inspected the exterior of the properties and, where possible, the interior of the premises. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the properties are free from defect.

We have relied to a considerable extent on information provided by the Company and have accepted advice given to us by the Company on such matters as planning approvals, statutory notices, easements, tenure, occupation, lettings, site and floor areas and in the identification of those property interests in which the Company has a valid interest.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoing of an onerous nature which could affect their values.

Unless otherwise stated, all money amounts stated are in Renminbi. The exchange rate used in valuing the property interests in the PRC on 31 December, 2003 was HK\$1=RMB1.06. There has been no significant fluctuation in exchange rate between that date and the date of this letter.

We enclose herewith a summary of our valuation and the valuation certificates.

Yours faithfully,

For and on behalf of

Vigers Appraisal & Consulting Limited

Raymond Ho Kai Kwong,

Registered Professional Surveyor

MRICS, MHKIS, MSc (e-com)

Executive Director

Note: Raymond K. K. Ho, Chartered Surveyor, MRICS, MHKIS, MSc (e-com) has 17 years experience in undertaking valuation of properties in Hong Kong and Macau and has over ten years’ experience in the valuation of properties in the PRC.

SUMMARY OF VALUATION

Property	Open market value in existing state as at 31 December, 2003
Group I – Property interest held and occupied by the Company in the PRC	
1. An industrial complex located at No. 26 Minshengdong Street, Kuiwen District, Weifang City, Shandong Province, the PRC	RMB77,400,000 (equivalent to HK\$73,018,868)
	RMB(77,400,000) (equivalent to HK\$73,018,868)
Sub-total:	
Group II – Property interests rented and occupied by the Company in the PRC as production facilities	
2. A casting and forging industrial complex located in No. 26 Minshengdong Street, Kuiwen District, Weifang City, Shandong Province, the PRC	No commercial value
3. An industrial complex located at Degan Town, Jiangjin City, Chongqing, the PRC	No commercial value
Sub-total:	Nil
Group III – Property Interest rented and occupied by the Company in Hong Kong as office	
4. Unit 9 on 24th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong	No commercial value
Sub-total:	Nil
Group IV – Property interests rented and occupied by the Company in the PRC as services centres/staff quarters	
A. Beijing	
5. The Commercial Block, Lin Street, Leather Industrial Area, North-west Corner, Nansihuan Dahongmenqiao, Beijing, the PRC	No commercial value
B. Tianjin	
6. Room 102, Level 2, Door 1, Block 2, Xingangchengkai Lane, Tanggu District, Tianjin, the PRC	No commercial value

		Open market value in existing state as at 31 December, 2003
Property		
C. Shanghai		
7.	Level 1, No. 830 Changzhong Road, Hongkou District, Shanghai, the PRC	No commercial value
D. Chongqing		
8.	Unit A8, Level 8, Shendi Building, Chenjiaping, Chongqing, the PRC	No commercial value
E. Hebei Province		
9.	Nos. 32-34 of Motorcar and Car Accessory Market, Beierhuan Road, Shijiazhuang, Hebei Province, the PRC	No commercial value
F. Shanxi Province		
10.	Levels 1–2, No. 112 Xuefu Street, Taiyuan, Shanxi Province, the PRC	No commercial value
G. Inner Mongolia Mengol Autonomous Region		
11.	Level 1 No. 2, Block 9, No. 14 Qingnian Road, Kun District, Baotou, Inner Mongolia Mengol Autonomous Region, the PRC	No commercial value
H. Liaoning Province		
12.	Level 2, Door 6, No. 52A Changqing Street, Dongling District, Shenyang, Liaoning Province, the PRC	No commercial value
I. Jilin Province		
13.	Mid of Room 10, Level 1, Door 2, Block 39, No. 42 Dongfeng Main Street, Changchun, Jilin Province, the PRC	No commercial value
J. Helongjiang Province		
14.	Level 1, No. 8 Dongbeixin Street, Daowai District, Harbin, Helongjiang Province, the PRC	No commercial value

		Open market value in existing state as at 31 December, 2003
Property		
K. Jiangsu Province		
15.	Level 1 of No. 9, Block 4, No. 1 Biluoshunzhuang Road, Jinshanqiao Development District, Xuzhou, Jiangsu Province, the PRC	No commercial value
16.	Room 503, Section 33, Block B4 and a car parking space, Zhongbaolu Court, Nanjing, Jiangsu Province, the PRC	No commercial value
17.	Room 5, Level 6, Block 13, Zhongyuan Quarter, Nantong, Jiangsu Province, the PRC	No commercial value
18.	Room 401, Block 5, Wezhong Court, Suzhou, Jiangsu Province, the PRC	No commercial value
19.	Level 2, Honglou Quarter, Jianshe Road, Yunhe Town, Peizhou, Jiansu Province, the PRC	No commercial value
L. Zhejiang Province		
20.	No. 766 Eastern Part of Huancheng Road North, Ningbo, Zhejiang Province, the PRC	No commercial value
21.	Level 1 of No. 756 Renminxi Road, Jinhua, Zhejiang Province, the PRC	No commercial value
22.	Nos. 4 and 5, Hongtai Commercial Block, Erhuanxi Road, Jiaxing, Zhejiang Province, the PRC	No commercial value
M. Anhui Province		
23.	Level 2, No. 12, Block 5, Laoguantang, Village, Dangtu Road, Luogang Town, Hefei, Anhui Province, the PRC	No commercial value
24.	Level 1, No. 9 Jinsanjiao, Xinshikou, Xinwu District, Wuhu, Anhui Province, the PRC	No commercial value

		Open market value in existing state as at 31 December, 2003
Property		
N. Fujian Province		
25.	Units 3 and 4, Level 1, Rongfu Court, No. 80 Huli, Xinghu Road, Xiamen, Fujian Province, the PRC	No commercial value
26.	Level 2, No. 5 Zeyuan Road, Baishi Street, Dongshan, Fujian Province, the PRC	No commercial value
O. Jiangxi Province		
27.	Unit 401, No. 7 Wanfuzi, Fusheng Road, Nanchang, Jiangxi Province, the PRC	No commercial value
P. Shandong Province		
28.	Room 101, Level 1, Lianyungang Road, Rizhao, Shandong Province, the PRC	No commercial value
29.	Levels 1 and 2 of No. 92 Huanghainan Road, Shidao Town, Rongcheng, Shandong Province, the PRC	No commercial value
Q. Henan Province		
30.	Levels 1 and 2, Qiyong Court, No. 282 Songshan Road, Zhengzhou, Henan Province, the PRC	No commercial value
R. Hubei Province		
31.	Level 1 of No. 309 Fazhan Main Road, 414 Xinquaxia Road, Hankow District, Wuhan, Hubei District, the PRC	No commercial value
S. Hunan Province		
32.	Levels 1 and 2, Block 1, Lanjing Garden, No. 174 Shaoshan Road South, Changsha, Hunan Province, the PRC	No commercial value

Property	Open market value in existing state as at 31 December, 2003
T. Guangdong Province	
33. Room 103, Level 1, Block A, Yijing Garden, Beihai Road, Huangqi District, Nanhai, Guangdong Province the PRC	No commercial value
U. Guangxi Zhuang Autonomous Region	
34. Levels 1 and 2, No. 136 Heping Road, Liuzhou, Guangxi Zhuang Autonomous Region, the PRC	No commercial value
V. Sichuan Province	
35. Levels 1 and 2, No. 153 Yinghui Road, Chenghua District, Chengdou, Sichuan Province, the PRC	No commercial value
W. Guizhou Province	
36. Level 1, No. Fu 13-14, No. 726 Huaqi Main Road Northern Section, Guiyang City, Guizhou Province, the PRC	No commercial value
X. Yunnan Province	
37. Unit 302, Unit 2, Level 3, Block 3, Yunxi Quarter, Kunming, Yunnan Province, the PRC	No commercial value
Y. Xinjiang Uygur Autonomous Region	
38. Room 202, Unit 4 and Nos. 21 and 22 of Block 3, Jinfengyuan Quarter, No. 308 Aletai Road, Urumqi, Xinjiang Uygur Autonomous Region, the PRC	No commercial value
Z. Tibet Tibetan Autonomous Region	
39. Level 1, No. 130 Jinzhuxi Road, Lhasa, Tibet Tibetan Autonomous Region	No commercial value
AA. Shaanxi Province	
40. Levels 1 and 2 of No. 25 Xingfubei Road, Xincheng District, Xi'an, Shaanxi Province, the PRC	No commercial value

Property		Open market value in existing state as at 31 December, 2003
BB. Qinghai Province		
41.	No. 3, Zone A, Haoyuan Car Accessory City, Yanqiaonan Road, Golmud, Qinghai Province, the PRC	No commercial value
42.	Level 2, District A, Xibu Composite Market, Xining, Qinghai Province, the PRC	No commercial value
CC. Ningxia Hui Autonomous Region		
43.	Levels 1 and 2, No. 790, Qinghe North Street, Xingzhuang Village, Xingqing District, Yinchuan, Ningxia Hui Autonomous Region, the PRC	No commercial value
Sub-total:		Nil
GRAND TOTAL:		RMB(77,400,000) (equivalent to HK\$73,018,868)

VALUATION CERTIFICATE

Group I – Property interest held and occupied by the Company in the PRC

Property	Description and Tenure	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
1. An industrial complex located in No. 26 Minshengdong Street, Kuiwen District, Weifang City, Shandong Province, The PRC	<p>The property comprises a parcel of industrial land with a site area of approximately 73,560 sq.m. and 18 buildings and structures erected thereon.</p> <p>The buildings and structures were completed in the 1960’s, 1970’s, 1980’s, 1990’s, and 2000’s respectively. The 18 buildings and structures with Building Ownership Certificates have a total gross floor area of approximately 63,167.14 sq.m..</p> <p>The main buildings and structures include factories, workshops, warehouses, office buildings, a showroom, a room for measurement, a station for electrical calculation, a square, etc..</p> <p>The parcel of land was granted with land use rights with an expiry date of 9 June, 2053.</p>	<p>The property is currently occupied by the Company for industrial production and ancillary purposes.</p>	<p>RMB77,400,000 (equivalent to HK\$73,018,868)</p>

- Notes:
- 1. Pursuant to a State-owned Land Use Right Grant Contract (Document No.: Wei Tu He Zi (2003) No. 92) dated June 2003 entered into between Planning and Land Resources Bureau of Weifang City (“Party A”) and Weichai Power Co., Ltd. (referred hereinafter as “the Company”), the land use rights of the subject property with a site area of approximately 73,560 sq.m. for industrial purpose is granted to the Company at a consideration of RMB14,000,000.
 - 2. Pursuant to a State-owned Land Use Right Certificate (Document No.: Wei Ge Yong (2003) Zi No. A158) dated 16 June, 2003, the land use rights of the subject property having a site area of approximately 73,560 sq.m. for industrial use and with an expiry date of 9 June, 2053 has been granted to the Company.
 - 3. According to 7 Building Ownership Certificates (Document Nos.: Wei Fang Quan Zheng Zi No. 011487, Wei Fang Quan Zheng Zi No. 011488, Wei Fang Quan Zheng Zi No. 011489, Wei Fang Quan Zheng Zi No. 011490, Wei Fang Quan Zheng Zi No. 011491, Wei Fang Quan Zheng Zi No. 011492 and Wei Fang Quan Zheng Zi No. 011493) dated 4 June, 2003, the ownership of 18 buildings of the subject property having a total gross floor area of 63,167.14 sq.m. is vested in the Company.
 - 4. In our course of inspection, there have been 16 items of buildings/structures which are under construction. Since these 16 items of buildings/structures that are under construction have not been applied for Building Ownership Certificate, our valuation has not incorporated their values. For indicative purpose, the total open market value of the 16 items of buildings/structures that are under construction was RMB20,195,351 as at 31 December, 2003.
 - 5. Pursuant the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the property are as follows:
 - (a) State-owned Land Use Right Grant Contract Yes
 - (b) State-owned Land Use Right Certificate Yes
 - (c) Building Ownership Certificates Yes
 - 6. We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
 - (a) The legal title of the granted land use rights of the property and the building ownership rights of the buildings erected thereon are vested in the Company.
 - (b) The Company is entitled to freely occupy, use, transfer, let, or mortgage the property and any part thereof without payment of any addition land grant premium.

Group II – Property interests rented and occupied by the Company in the PRC as production facilities

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
2. A casting and forging industrial complex located in No. 26 Minshengdong Street, Kuiwen District, Weifang City, Shandong Province, the PRC	<p>The property comprises a parcel of industrial land with a site area of approximately 154,944 sq.m. and 29 buildings and other ancillary structures with a total gross floor area of approximately 63,245.31 sq.m..</p> <p>The buildings and ancillary structures were completed in the 1970’s, 1980’s, 1990’s and 2000’s respectively.</p> <p>The main buildings and structures include factories, workshops, warehouses, an air compression machinery station, a weighbridge room and an electricity distribution room, a garage, etc..</p>	<p>The property is leased to the Company from a connected party for a term of 5 years from 1 July, 2003 to 20 May, 2008 at an annual rent of RMB12,697,290 inclusive of tax.</p> <p>The property is currently occupied by the Company for industrial production and ancillary purposes.</p>	No commercial value

Notes:

- The landlord is a connected person under the Listing Rules and is a substantial Shareholder of the Company.
- We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
 - A Permit to Lease has been issued by relevant government authority to the landlord;
 - The landlord of the property has the right to lease the property to the Company and the Company has the legal rights under the tenancy agreement to occupy the property during the rental period;
 - The tenancy agreement is legal, effective and legally binding between the parties; and
 - The rights of the parties to the tenancy agreement are protected by the PRC laws.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
3. An industrial complex located at Degan Town, Jiangjin City, Chongqing, the PRC	<p>The property comprises a parcel of industrial land with a site area of approximately 49,206.82 sq.m. and 23 buildings and structures with a total gross floor area of approximately 35,553.94 sq.m..</p> <p>The buildings and structures were completed in the 1970’s, 1980’s, 1990’s and 2000’s respectively.</p> <p>The main buildings and structures include workshops, a technology building, warehouses, an electricity distribution room, guard rooms, testing centres, substations, an air compression and electricity generation room, a pump room, etc..</p>	<p>The property is leased to the Company from a connected party for a term of 5 years from 1 July, 2003 to 30 June, 2008 at an annual rent of RMB3,403,940 inclusive of tax.</p> <p>The property is currently occupied by the Company for industrial production and ancillary purposes.</p>	No commercial value

Notes:

- The landlord is a connected person under the Listing Rules and is a substantial Shareholder of the Company.
- We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
 - A Permit to Lease has been issued by relevant government authority to the landlord;
 - The landlord of the property has the right to lease the property to the Company and the Company has the legal rights under the tenancy agreement to occupy the property during the rental period;
 - The tenancy agreement is legal, effective and legally binding between the parties; and
 - The rights of the parties to the tenancy agreement are protected by the PRC laws.

Group III – Property interest rented and occupied by the Company in Hong Kong as office

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
4. Unit 9 on 24th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong	<p>The property comprises an office unit on the 24th Floor in a 29-storey commercial building completed in 1978.</p> <p>The property has a gross floor area and a salable area of approximately 950 sq.ft. (88.26 sq.m.) and 760 sq.ft. (70.61 sq.m.) respectively.</p>	<p>The property is leased by the Group for a term of 12 months commencing from 1 January, 2004 to 31 December, 2004 at a monthly rent of HK\$13,300.00 exclusive of rates, air-conditioning fee and management fee.</p> <p>The property is occupied by the Group as office.</p>	No commercial value

Note:

1. The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.

Group IV – Property interests rented and occupied by the Company in the PRC as services centres/staff quarters

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
A. Beijing			
5. The Commercial Block, Lin Street, Leather Industrial Area, North-west Corner, Nansihuan Dahongmenqiao, Beijing, the PRC	<p>The property comprises a 2-storey building completed in or about 2001.</p> <p>The property has a gross floor area of approximately 900 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 1 September, 2001 to 31 August, 2007 at an annual rent of RMB350,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre and staff quarters.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
- (a)

The Company has not provided the title documents, authorization letter from the landlord or legal documents and Permit to Lease for the property above, accordingly, the lease agreement is considered ineffective and invalid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
B. Tianjin			
6. Room 102, Level 2, Door 1, Block 2, Xingangchengkai Lane, Tanggu District, Tianjin, the PRC	<p>The property comprises a single unit of a 6-storey building completed in or about 1999.</p> <p>The property has a gross floor area of approximately 92 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 1 June, 2003 to 31 May, 2004 at an annual rent of RMB13,200 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as staff quarters.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
- (a)

For which the tenancy agreement is not signed by the owner showed on the Building Ownership Certificate, the lease agreement is considered ineffective and invalid accordingly.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
C. Shanghai			
7. Level 1, No. 830 Changzhong Road, Hongkou District, Shanghai, the PRC	<p>The property comprises a single unit of a 6-storey building completed in or about 2000.</p> <p>The property has a gross floor area of approximately 168.34 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 20 April, 2003 to 21 April, 2006 at an annual rent of RMB90,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre and warehouse.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
- (a)

Persuade to the Real Estate Title Certificate, the property is jointly owned by 3 persons. The tenancy is entered into between one of the owners and the Company. Without any permission or authorization by the other two owners, that single owner does not have the capacity to enter the lease agreement alone, thus the lease agreement is ineffective and void.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
D. Chongqing			
8. Unit A8, Level 8, Shendi Building, Chenjiaping, Chongqing, the PRC	<p>The property comprises a single unit of a 11-storey building completed in or about 1998.</p> <p>The property has a gross floor area of approximately 125 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 31 May, 2003 to 31 December, 2003 at an annual rent of RMB20,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

As at the Latest Practicable Date, the tenancy agreement was renewed for a term commencing from 1 January, 2004 to 31 December, 2005 at an annual rent of RMB20,000.
3.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:

(a)

For which the tenancy agreement is signed by the owners showed on the Building Ownership Certificate and Permit to Lease, the lease agreement is considered effective and valid accordingly.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
E. Hebei Province			
9. Nos. 32–34 of Motorcar and Car Accessory Market, Beierhuan Road, Shijiazhuang, Hebei Province, the PRC	<p>The property comprises a single-storey building completed in or about 1999.</p> <p>The property has a gross floor area of approximately 135 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 15 May, 2003 to 15 May, 2006 at an annual rent of RMB24,300 exclusive of water and electricity charges.</p> <p>The property is currently occupied by the Company as services centre and warehouse.</p>	No commercial value

Notes:

1. The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.

2. We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:

(a) The Company has not provided the title documents and other title certificates whilst provided with the Permit to Lease, accordingly, the title over the property above cannot been recognized as the lessor shown on the lease agreement, the lease agreement is considered ineffective and invalid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
F. Shanxi Province			
10. Levels 1-2, No. 112 Xuefu Street, Taiyuan, Shanxi Province, the PRC	<p>The property comprises the 1st and 2nd levels of a 3-storey building completed in or about 1998.</p> <p>The property has a total gross floor area of approximately 110 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 5 September, 2003 to 5 September, 2004 at an annual rent of RMB43,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre and staff quarters.</p>	No commercial value

Notes:

1. The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2. We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:

(a) The Company has not provided the Building Ownership Certificate whilst provided with the Permit to Lease, accordingly, it is no evidence to recognize the title over the property, the lease agreement is considered ineffective and invalid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
G. Inner Mongolia Mengol Autonomous Region			
11. Level 1 No. 2, Block 9, No. 14 Qingnian Road, Kun District, Baotou, Inner Mongolia Mengol Autonomous Region, the PRC	<p>The property comprises a unit of a 6-storey building completed in or about 1998.</p> <p>The property has a gross floor area of approximately 115 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 5 November, 2003 to 5 November, 2004 at an annual rent of RMB24,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre and staff quarters.</p>	No commercial value

Notes:

- The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
- We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
 - For which the tenancy agreement is signed by the owners showed on the Building Ownership Certificate and Permit to Lease, accordingly, the lease agreement is considered effective and valid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
H. Liaoning Province			
12. Level 2, Door 6, No. 52A Changqing Street, Dongling District, Shenyang, Liaoning Province, the PRC	<p>The property comprises the whole of the 2nd Floor of a 2-storey building completed in or about 1999.</p> <p>The property has a gross floor area of approximately 161.76 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 1 September, 2003 to 31 August, 2004 at an annual rent of RMB55,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre and staff quarters.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:

(a)

For which the tenancy agreement is signed by the owners showed on the Building Ownership Certificate and Permit to Lease, accordingly, the lease agreement is considered effective and valid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
I. Jilin Province			
13. Mid of Room 10, Level 1, Door 2, Block 39, No. 42 Dongfeng Main Street, Luyuen District, Changchun, Jilin Province, the PRC	<p>The property comprises a unit of a 3-storey building completed in or about 1957.</p> <p>The property has a gross floor area of approximately 79.9 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 15 September, 2003 to 15 September, 2004 at an annual rent of RMB14,400 exclusive of water, electricity, gas, telephone, hygiene and security charges.</p> <p>The property is currently occupied by the Company as services centre and staff quarters.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
- (a)

For which the tenancy agreement is signed by the owners showed on the Building Ownership Certificate and Permit to Lease, accordingly, the lease agreement is considered effective and valid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
J. Helongjiang Province			
14. Level 1, No. 8 Dongbeixin Street, Daowai District, Harbin, Helongjiang Province, the PRC	<p>The property comprises 2 units of a 7-storey building completed in or about 1996.</p> <p>The property has a gross floor area of approximately 80 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 5 September, 2003 to 4 September, 2004 at an annual rent of RMB38,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre and staff quarters.</p>	No commercial value

Notes:

- The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
- We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
 - The Company has not provided the title documents, authorization letter from the landlord or legal documents and Permit to Lease for the property above, accordingly, the lease agreement is considered ineffective and invalid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
K. Jiangsu Province			
15. Level 1 of No. 9, Block 4, No. 1 Biluoshunzhuang Road, Jinshanqiao Development District, Xuzhou, Jiangsu Province, the PRC	<p>The property comprises a unit of a single-storey building completed in or about 1988.</p> <p>The property has a gross floor area of approximately 240.23 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 8 November, 2003 to 8 November, 2004 at a total annual rent of RMB25,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:

(a)

The Company has not provided the Building Ownership Certificate whilst provided with the Permit to Lease, accordingly, the lease agreement is considered ineffective and invalid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
16. Room 503, Section 33, Block B4 and a car park, Zhongbaolu Court, Nanjing, Jiangsu Province, the PRC	<p>The property comprises a unit of a 6-storey building completed in or about 2000 and a car parking space.</p> <p>The property has a unit with a gross floor area of approximately 146.48 sq.m. and a carparking space of 70 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 8 June, 2003 to 7 June, 2006 at a total annual rent of RMB45,600 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre, warehouse and staff quarters.</p>	No commercial value

Notes:

1. The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2. We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:

(a) For which the tenancy agreement is signed by the owners showed on the Sale and Purchase Agreement and Permit to Lease, accordingly, the lease agreement is considered effective and valid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
17. Room 5, Level 6, Block 13, Zhongyuan Quarter, Nantong, Jiangsu District, the PRC	<p>The property comprises a single unit of a 6-storey building completed in or about 1998.</p> <p>The property has a gross floor area of approximately 118.58 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 30 November, 2002 to 30 November, 2004 at an annual rent of RMB26,400 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre and staff quarters.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
- (a)

The Company has provided with the Building Ownership Certificate and Permit to Lease.

(b)

The lease agreement has been registered with the relevant government organization, although the property is subject to a mortgage, it still considered effective and valid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
18. Room 401, Block 5, Wezhong Court, Suzhou, Jiangsu Province, the PRC	<p>The property comprises a single unit of a 4-storey building completed in or about 2000.</p> <p>The property has a gross floor area of approximately 103.38 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 25 January, 2003 to 24 January, 2004 at an annual rent of RMB27,600 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre.</p>	No commercial value

Notes:

- The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
- As at the Latest Practicable Date, the tenancy agreement was renewed for a term commencing from 1 February, 2004 to 31 January, 2005 at an annual rental of RMB38,400.
- We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
 - For which the tenancy agreement is signed by the owners showed on the Building Ownership Certificate and Permit to Lease, accordingly, the lease agreement is considered effective and valid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
19. Level 2, Honglou Quarter, Jianshe Road, Yunhe Town, Peizhou, Jiangsu Province, the PRC	<p>The property comprises a single unit of a 7-storey building completed in or about 1991.</p> <p>The property has a gross floor area of approximately 88.36 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 30 March, 2003 to 29 March, 2006 at an annual rent of RMB9,600 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as staff quarters.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
- (a)

For which the tenancy agreement is signed by the owners showed on the Building Ownership Certificate and Permit to Lease, accordingly, the lease agreement is considered effective and valid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
L. Zhejiang Province			
20. No. 766 Eastern Part of Huancheng Road North, Ningbo, Zhejiang Province, the PRC	<p>The property comprises the whole of a single-storey building completed in or about 1995.</p> <p>The property has a gross floor area of approximately 100 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 1 May, 2003 to 30 April, 2004 at an annual rent of RMB12,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as warehouse.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
- (a)

For which the tenancy agreement is not signed by the owner showed on the Building Ownership Certificate and Permit to Lease, accordingly, the lease agreement is considered ineffective and invalid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
21. Level 1 of No. 756 Renminxi Road, Jinhua, Zhejiang Province, the PRC	<p>The property comprises a single unit of a 7-storey building completed in or about 1999.</p> <p>The property has a gross floor area of approximately 98.96 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 18 August, 2003 to 17 August, 2004 at an annual rent of RMB29,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
- (a)

For which the tenancy agreement is signed by the owners showed on the Building Ownership Certificate and Permit to Lease, accordingly, the lease agreement is considered effective and valid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
22. Nos. 4 and 5, Hongtai Commercial Block, Erhuanxi West Road, Jiaxing, Zhejiang Province, the PRC	<p>The property comprises 2 units of a 2-storey building completed in or about 2001.</p> <p>The property has a gross floor area of approximately 119.6 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 30 May, 2003 to 29 May, 2004 at an annual rent of RMB28,704 exclusive of water, and electricity charges.</p> <p>The property is currently occupied by the Company as services centre and staff quarters.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
- (a)

For which the tenancy agreement is not signed by the owner showed on the Building Ownership Certificate, accordingly, the lease agreement is considered ineffective and invalid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
M. Anhui Province			
23. Level 2, No. 12, Block 5, Laoguantang Village, Dangtu Road, Luogang Town, Hefei, Anhui Province, the PRC	<p>The property comprises the whole of a 2-storey building completed in or about 1998.</p> <p>The property has a total gross floor area of approximately 172 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 1 January, 2003 to 31 December, 2006 at an annual rent 19,000 exclusive of water, electricity, gas, telephone, hygiene charges for the 1st year. The annual rental will increase by 10% in the 2nd year and the 3rd year annual rental will be set in accordance with the rental comparables.</p> <p>The property is currently occupied by the Company as services centre.</p>	No commercial value

Notes:

- The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
- We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
 - For which the tenancy agreement is signed by the owners showed on the Building Ownership Certificate and Permit to Lease, accordingly, the lease agreement is considered effective and valid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
24. Level 1, No. 9 Jinsanjiao, Xinshikou, Xinwu District, Wuhu, Auhui Province, the PRC	<p>The property comprises a unit of a 7-storey building completed in or about 1997.</p> <p>The property has a gross floor area of approximately 90 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 15 May, 2002 to 15 May, 2004 at an annual rent of 13,200 exclusive of water, electricity, gas and hygiene charges.</p> <p>The property is currently occupied by the Company as warehouse.</p>	No commercial value

Notes:

1. The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2. We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:

(a) For which the tenancy agreement is not signed by the owner showed on the Real Estate Title Certificate and Permit to Lease, accordingly, the lease agreement is considered ineffective and invalid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
N. Fujian Province			
25. Units 3 and 4, Level 1, Rongfu Court, No. 80 Huli, Xinghu Road, Xiamen, Fujian Province, the PRC	<p>The property comprises 2 units of a 8-storey building completed in or about 2001.</p> <p>The property has a total gross floor area of approximately 104.32 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 1 June, 2003 to 31 May, 2005 at an annual rent of RMB54,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre and staff quarters.</p>	No commercial value

- Notes:
- 1. The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
 - 2. We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
 - (a) For which the tenancy agreement is signed by the owners showed on the Sale and Purchase Agreement and Permit to Lease, accordingly, the lease agreement is considered effective and valid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
26. Level 2, No. 5 Zeyuan Road, Baishi Street, Dongshan, Fujian Province, the PRC	<p>The property comprises the whole of level 2 of a 5-storey building completed in or about 1989.</p> <p>The property has a total gross floor area of approximately 110 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 18 June, 2003 to 31 December, 2003 at an annual rent of RMB15,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre and staff quarters.</p>	No commercial value

Notes:

1. The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2. As at the Latest Practicable Date, the tenancy agreement was renewed for a term commencing from 1 January, 2004 to 31 December, 2004 at an annual rental of RMB38,000.
3. We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
 - (a) The Company has not provided the Title documents, authorization letter from the landlord or legal documents and Permit to Lease for the premises above, accordingly, the lease agreement is considered ineffective and invalid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
O. Jiangxi Province			
27. Unit 401, No. 7 Wanfuzi, Fusheng Road, Nanchang, Jiangxi Province, the PRC	<p>The property comprises 6 units of a 7-storey building completed in or about 2001.</p> <p>The property has a gross floor area of approximately 170 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 5 November, 2002 to 4 November, 2004 at an annual rent of RMB50,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
- (a)

The Company has not provided the Title documents, authorization letter from the landlord or legal documents and Permit to Lease for the premises above, accordingly, the lease agreement is considered ineffective and invalid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
P. Shandong Province			
28. Room 101, Level 1, Lianyungang Road, Rizhao, Shandong Province, the PRC	<p>The property comprises a unit of a 6-storey building completed in or about 2001.</p> <p>The property has a gross floor area of approximately 95 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 20 May, 2003 to 20 May, 2005 at an annual rent of RMB14,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre, warehouse and staff quarters.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
- (a)

The Company has not provided the Title documents, authorization letter from the landlord and legal documents for the premises above, accordingly, the lease agreement is considered ineffective and invalid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
29. Levels 1 and 2 of No. 92 Huanghainan Road, Shidao Town, Rongcheng, Shandong Province, the PRC	<p>The property comprises a single unit of a 2-storey building completed in or about 2000.</p> <p>The property has a gross floor area of approximately 168 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 15 May, 2003 to 15 May, 2006 at an annual rent of RMB26,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
- (a)

The Company has not provided the Title documents, authorization letter from the landlord and legal documents for the premises above, accordingly, the lease agreement is considered ineffective and invalid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
Q. Henan Province			
30. Levels 1 and 2, Qiyong Court, No. 282 Songshan Road, Zhengzhou, Henan Province, the PRC	<p>The property comprises 2 units on the 1st and 2nd levels of a 6-storey building completed in or about 1987.</p> <p>The property has a total gross floor area of approximately 240 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 1 January, 2003 to 1 January, 2005 at a total annual rent of RMB60,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
- (a)

The Company has not provided the Title documents, authorization letter from the landlord and legal documents for the premises above, accordingly, the lease agreement is considered ineffective and invalid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
R. Hubei Province			
31. Level 1 of No. 309 Fazhan Main Road, 414 Xinquaxia Road, Hankow District, Wuhan, Hubei District, the PRC	<p>The property comprises a unit of a 8-storey building completed in or about 1987.</p> <p>The property has a gross floor area of approximately 130 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 8 June, 2003 to 7 June, 2004 at an annual rent of RMB51,480.</p> <p>The property is currently occupied by the Company as services centre, warehouse and staff quarters.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
- (a)

For which the tenancy agreement is not signed by the owners showed on the Building Ownership Certificate and Permit to Lease, accordingly, the lease agreement is considered ineffective and invalid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
S. Hunan Province			
32. Levels 1 and 2, Block 1, Lanjing Garden, No. 174, Shaoshan Road, South Changsha, Hunan Province, the PRC	<p>The property comprises the 1st and 2nd levels of a 3-storey building completed in or about 1994.</p> <p>The property has a total gross floor area of approximately 248 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 20 May, 2003 to 19 May, 2004 at an annual rent of RMB50,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre and staff quarters.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
- (a)

The Company has not provided the Title documents, authorization letter from the landlord or legal documents and Permit to Lease for the premises above, accordingly, the lease agreement is considered ineffective and invalid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
T. Guangdong Province			
33. Room 103, Level 1, Block A, Yijing Garden, Beihai Road, Huangqi District, Nanhai, Guangdong Province, the PRC	<p>The property comprises a single unit of a 3-storey building completed in or about 1978.</p> <p>The property has a gross floor area of approximately 119.37 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 1 September, 2003 to 31 August, 2008 at an annual rent of RMB30,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre and warehouse.</p>	No commercial value

Notes:

- The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
- We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
 - For which the tenancy agreement is signed by the owners showed on the Building Ownership Certificate and Permit to Lease, accordingly, the lease agreement is considered effective and valid. However, the lease agreement has not been registered in relevant government organization, both lessor and lessee bears a risk to be punished, but the effectiveness of the lease agreement would not be affected.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
U. Guangxi Zhuang Autonomous Region			
34. Levels 1 and 2, No. 136 Heping Road, Liuzhou, Guangxi Zhuang Autonomous Region, the PRC	<p>The property comprises 3 units of a 2-storey building completed in or about 2000.</p> <p>The property has a total gross floor area of approximately 170 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 1 January, 2003 to 31 December, 2003 at an annual rent of RMB43,200 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre and staff quarters.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

As at the Latest Practicable Date, the tenancy agreement was renewed for a term commencing from 1 January, 2004 to 31 December, 2004 at an annual rental of RMB37,200.
3.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:

(a)

The Company has not provided the Title documents, authorization letter from the landlord or legal documents and Permit to Lease for the premises above, accordingly, the lease agreement is considered ineffective and invalid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
V. Sichuan Province			
35. Levels 1 and 2, No. 153 Yinghui Road, Chenghua District, Chengdou, Sichuan Province, the PRC	<p>The property comprises the whole of level 2 of a 2-storey building completed in or about 1998.</p> <p>The property has a total gross floor area of approximately 129 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 1 November, 2002 to 31 October, 2005 at an annual rent of RMB48,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre and staff quarters.</p>	No commercial value

- Notes:
1. The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.

2. We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:

(a) The Company has not provided the Title documents, authorization letter from the landlord or legal documents and Permit to Lease for the premises above, accordingly, the lease agreement is considered ineffective and invalid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
W. Guizhou Province			
36. Level 1, No. Fu 13-14, No. 726 Huaqi Main Road Northern Section, Guiyang City, Guizhou Province, the PRC	<p>The property comprises a single unit of a 3-storey building completed in or about 1998.</p> <p>The property has a total gross floor area of approximately 73.42 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 22 October, 2003 to 21 October, 2004 at an annual rent of RMB55,200 exclusive of water, electricity, gas, telephone and hygiene charges.</p> <p>The property is currently occupied by the Company as services centre.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:

(a)

For which the tenancy agreement is signed by the owners showed on the Public Housing Management Certificate and Permit to Lease, accordingly, the lease agreement is considered effective and valid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
X. Yunnan Province			
37. Unit 302, Unit 2, Level 3, Block 3, Yunxi Quarter, Kunming, Yunnan Province, the PRC	<p>The property comprises a single unit of a 8-storey building completed in or about 1999.</p> <p>The property has a gross floor area of approximately 102.58 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 16 June, 2003 to 15 June, 2006 at an annual rent of RMB15,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
- (a)

For which the tenancy agreement is signed by the owners showed on the Building Ownership Certificate and Permit to Lease, accordingly, the lease agreement is considered effective and valid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
Y. Xinjiang Uygur Autonomous Region			
38. Room 202, Unit 4 and Nos. 21 and 22 of Block 3, Jinfengyuan Quarter, No. 308 Aletai Road, Urumqi, Xinjiang Uygur Autonomous Region, the PRC	<p>The property comprises 3 units of a 4-storey building completed in or about 2001.</p> <p>The property has a total gross floor area of approximately 165.68 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 1 April, 2003 to 31 March, 2006 at a annual rent of RMB55,000 exclusive of water, electricity, gas, telephone, hygiene and heating charges and management fee.</p> <p>The property is currently occupied by the Company as services centre and staff quarters.</p>	No commercial value

Notes:

- The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
- We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
 - For which the tenancy agreement is not signed by the owners showed on the Building Ownership Certificate and Permit to Lease, accordingly, the lease agreement is considered ineffective and invalid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
Z. Tibet Tibetan Autonomous Region			
39. Level 1, No. 130 Jinzhuixi Road, Lhasa, Tibet Tibetan Autonomous Region, the PRC	<p>The property comprises the whole of level 1 of a 3-storey building completed in or about 2002.</p> <p>The property has a gross floor area of approximately 120 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 1 July, 2003 to 30 June, 2004 at an annual rent of RMB28,800 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
- (a)

The Company has not provided the Title documents, authorization letter from the landlord or legal documents and Permit to Lease for the premises above, accordingly, the lease agreement is considered ineffective and invalid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
AA.Shannxi Province			
40. Levels 1 and 2 of No. 25 Xingfubei Road, Xincheng District, Xi'an, Shaanxi Province, the PRC	<p>The property comprises the whole of level 1 and 2 of a 2-storey building completed in or about 1999.</p> <p>The property has a gross floor area of approximately 154 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 20 January, 2003 to 19 January, 2004 at an annual rent of RMB36,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre and staff quarters.</p>	No commercial value

- Notes:
- The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
 - As at the Latest Practicable Date, the tenancy agreement was renewed for a term commencing from 19 January, 2004 to 20 January, 2005 at an annual rental of RMB36,000.
 - We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
 - For which the tenancy agreement is signed by the owners showed on the Building Ownership Certificate and Permit to Lease, accordingly, the lease agreement is considered effective and valid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
BB. Qinghai Province			
41. No. 3, Zone A, Haoyuan Car Accessory City, Yanqiaonan Road, Golmud, Qinghai Province, the PRC	<p>The property comprises a unit of a 2-storey building completed in or about 2000.</p> <p>The property has a gross floor area of approximately 365 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 1 July, 2003 to 30 June, 2004 at an annual rent of RMB46,530 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre and warehouse.</p>	No commercial value

Notes:

- The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
- We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
 - For which the tenancy agreement is signed by the owners showed on the Building Ownership Certificate and Permit to Lease, accordingly, the lease agreement is considered effective and valid. However, the lease agreement has not been registered in relevant government organization, both lessor and lessee bears a risk to be punished, but the effectiveness of the lease agreement would not be affected.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
42. Level 2, District A, Xibu Composite Market, Xining, Qinghai Province, the PRC	<p>The property comprises a single unit of a 2-storey building completed in or about 2001.</p> <p>The property has a gross floor area of approximately 177.12 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 1 January, 2003 to 31 December, 2003 at an annual rent of RMB34,008 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre and staff quarters.</p>	No commercial value

Notes:

1.

The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
2.

As at the Latest Practicable Date, the tenancy agreement was renewed for a term of one year commencing from 1 January, 2004 to 31 December, 2004 at an annual rent of RMB25,506.
3.

We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:

(a)

For which the tenancy agreement is not signed by the owners showed on the Building Ownership Certificate, accordingly, the lease agreement is considered ineffective and invalid.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December, 2003
CC.Ningxia Hui Autonomous Region			
43. Levels 1 and 2, No. 790, Qinghe North Street, Xingzhuang Village, Xingqing District, Yinchuan, Ningxia Hui Autonomous Region, the PRC	<p>The property comprises a single unit of a 2-storey building completed in or about 1993.</p> <p>The property has a gross floor area of approximately 163 sq.m..</p>	<p>The property is leased to the Company from an independent third party for a term from 30 June, 2003 to 9 August, 2004 at an annual rent of RMB33,000 exclusive of water, electricity, gas, telephone, hygiene charges.</p> <p>The property is currently occupied by the Company as services centre.</p>	No commercial value

Notes:

- The landlord is an independent third party, which is not connect with and is independent of, any of the directors or any of their respective associates of the Company.
- We have been provided with a legal opinion on the property prepared by the Company’s legal advisers, which contains, *inter alia*, the following information:
 - For which the tenancy agreement is not signed by the owners showed on the Building Ownership Certificate, accordingly, the lease agreement is considered ineffective and invalid.

The following is the text of a letter and summary of values received from Vigers Appraisal & Consulting Limited, prepared for the purpose of inclusion in the Prospectus, in respect of its valuation of the plant and machinery interest of the Company as at 31 December, 2003.

Vigers Appraisal & Consulting Limited
International Property Consultants



10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

26 February, 2004

The Directors
Weichai Power Co., Ltd.
26 Minshengdong Street
Kuiwen District
Weifang City
Shandong Province
the PRC

Dear Sirs,

In accordance with your instructions for us to value the machinery and equipment, electrical equipment, electronics and test equipment, and motor vehicles and transport equipment (collectively referred to as the “Equipment”) exhibited to us as being owned and leased by Weichai Power Co., Ltd. (the “Company”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the fair market value in continued use of the Equipment as at 31 December, 2003.

BASIS OF VALUATION

We have valued the Equipment on the basis of its fair market value in continued use which is defined as the estimated amount at which the subject assets in their continued use might be expected to be purchased and sold between a willing buyer and a willing seller, neither being under compulsion, each having a reasonable knowledge of all relevant facts and with equity to both, and contemplating the retention of the assets in their present existing use as part of an on-going business.

The opinion of fair market value in continued use is not necessarily intended to represent the amount that might be realised from piecemeal disposition of the subject Equipment in the open market or from alternative use of the Equipment.

In forming our opinion of the fair market value in continued use, we have assumed that the Equipment will continue in its present existing use in the business of the Company for which it was designed, built and erected, subject to potential profitability of the business.

ASSETS APPRAISED

The fixed assets subject of this appraisal, as per the list provided to us, are those utilised by the Company in the production and assembly of diesel engines for various applications, consisting of:

- Owned Assets

Weifang Production Plant

Machinery and Equipment

These comprised of production assembly lines, CNC machining centres, horizontal lathes, vertical lathes, drillers, millers, grinders, boring machines, planers, combination lathes, shapers, electric discharge machines (wire cutting), gear hobbing machines, gear slotting machines, copy milling machines, 3-axis milling machines, balancing machine, hydraulic presses, cleaning machine, fastening machines, overhead travelling cranes and other ancillary machines.

Electrical Equipment

This consists of heating furnaces, nitrogen heat treatment production line, heat treatment ovens, electrical controls, pumps, air-conditioners and others.

Electronics and Test Equipment

These include co-ordinate measuring machine, various testing equipment, computers, printers, photocopying machines, blue printing machines and others.

Motor Vehicles and Transport Equipment

These include passenger cars, buses, trucks, jeeps, tricycles and forklifts.

Construction-In-Progress

These are assets that are not fully constructed or installed. The value indicated is based on the recorded costs as reported to us as of the appraisal date.

The Equipment was inspected at the production facilities of the Company located at No. 26, Minshengdong Street, Kuiwen District, Weifang City, Shandong Province, the People’s Republic of China.

Chongqing Production Plant

Machinery and Equipment

These include machining centers, lathes, drillers, millers, grinders, boring machines, planers, combination lathes, shapers, hydraulic presses, balancing machine, nitrogen production machine, nitrogen heat treatment production line, cleaning machine, fastening machines, overhead travelling cranes, testing machines and other ancillary equipment.

The Equipment was inspected at the production facilities of the Company located at Degan Town, Jiangjin City, Chongqing, the People’s Republic of China.

- **Leased Assets (Casting and Forging)**

Machinery and Equipment

These consist of continuous casting production line, continuous mould production line, melting furnaces, sand core moulding machines, automatic racking system, belt conveyors, sand mixers, surface cleaning machines, lathes, drillers, boring machines, millers, planers, overhead travelling cranes and other auxiliary machines.

Motor Vehicles and Transport Equipment

These include jeeps, tricycle and forklifts.

Electronics Equipment

These consist of computers, printers, photocopying machines, air-conditioners and others.

Construction-In-Progress

These are assets that are not fully constructed or installed. The value indicated is based on the recorded costs as reported to us as of the appraisal date.

The casting and forging production facilities were inspected at No. 26, Minsheng Dong Street, Kuiwen District, Weifang City, Shandong Province, the People’s Republic of China.

At the time of our inspection, the Equipment was observed to be generally in good working condition. It is our opinion that it is capable of performing the function for which it was designed, built and erected. The Equipment undergoes periodic maintenance.

VALUATION METHODOLOGY

In arriving at our opinion of value, we have considered the two generally accepted approaches to values; namely:

Cost Approach – considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present, taking into consideration past and present maintenance policy and rebuilding history.

Physical depreciation is the loss in value due to physical deterioration resulting from wear and tear in operation and exposure to elements. Deterioration due to age and deterioration due to usage are the main factors that affect physical condition. Physical condition due to wear and tear is proportional to use rather than age. Use is the best indicator to estimate physical deterioration.

Market Data or Comparative Sales Approach – considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative. Asset for which there is an established secondhand market comparable is best appraised by this approach.

SCOPE OF INVESTIGATION AND CONSIDERATIONS

Before arriving at our opinion of value, we have personally conducted a physical inventory and inspection of the subject Equipment, investigated market condition, interviewed personnel, and examined documents and specifications provided to us.

During our inspection we observed the various Equipment. Any deferred maintenance, physical wear and tear, operating malfunctions, lack of utility, or any observable conditions distinguishing the appraised assets from assets of like kind in new conditions were noted and made part of our judgments in arriving at the values.

In arriving at our opinion of the defined value using the cost approach, we have considered the cost of reproduction new of the subject assets, defined as the estimated amount of money needed to acquire in like kind and in new condition an asset or group of assets, taking into consideration current prices of materials, labour, manufactured equipment, contractor’s overhead, profit and fees, and all other attendant costs associated with its acquisition and installation in place, without provision for overtime or bonuses for labour, and premiums for materials.

Consideration has been given to accrued depreciation that was based on the observed condition and present and prospective serviceability in comparison with new units of like kind.

We have assumed that the Equipment will be used in its present existing state with the benefit of continuity of the tenure of land and buildings during the foreseeable future.

We have relied to a considerable extent on information such as records, listings and specifications provided to us by the Company. We have made no investigation of and assume no responsibility for titles to or liabilities against the Equipment appraised.

We have not made any deduction in respect of any grant either available or received, neither has any adjustment been made for any outstanding amounts owing under financing agreements.

Our investigation was restricted to a detailed inventory and appraisal of the subject Equipment and does not attempt to arrive at any conclusion of values of the Company as a total business entity.

OPINION OF VALUE

Based on the foregoing, we are of the opinion that as at 31 December, 2003, the fair market value in continued use of the Equipment, as part of a going-concern, is fairly represented in the amount of RMB331,575,000 (Renminbi Three Hundred Thirty One Million Five Hundred Seventy Five Thousand).

We hereby certify that we have neither present nor prospective interest in the Company or the appraised Equipment or the value reported.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited

Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS, MHKIS, MSc (e-com)
Executive Director

Maximo I. Montes Jr.
PME BSME
Associate Director
Plant and Machinery Valuation

Note: Maximo I. Montes Jr. is a Professional Mechanical Engineer who has 33 years experience in industrial plant valuation. He has 23 years experience in the valuation of plant machinery and equipment in Hong Kong, the PRC and Asia Pacific Rim.

SUMMARY OF VALUES

		Fair Market Value In Continued Use attributable to the Company as at 31 December, 2003 RMB
Owned Assets		
Weifang Production Plant		
Machinery and Equipment	:	91,113,400
Electrical Equipment	:	22,065,810
Electronics and Test Equipment	:	11,779,290
Motor Vehicles and Transport Equipment	:	13,592,300
Construction-In-Progress	:	127,918,757
	Sub-total	: 266,469,557
Chongqing Production Plant		
Machinery and Equipment	:	65,105,700
	Total Owned Assets	: 331,575,257
Leased Assets		
Casting and Forging Department		
Machinery and Equipment	:	no commercial value
Motor Vehicles and Transport Equipment	:	no commercial value
Electronics Equipment	:	no commercial value
Construction-In-Progress	:	no commercial value
	Total Leased Assets	: no commercial value
	Grand Total	: 331,575,257
	Rounded to	: 331,575,000

The following is the text of a valuation report received from Vigers Appraisal & Consulting Limited, an independent valuer, prepared for the purpose of incorporation into the Prospectus, in respect of the valuation of the technologies interest of the Company as at 1 January, 2003.

Vigers Appraisal & Consulting Limited
International Property Consultants



10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

26 February, 2004

The Directors
Weichai Power Co., Ltd.
26 Minshengdong Street
Kuiwen District
Weifang City
Shandong Province
the PRC

Dear Sirs/Madams,

In accordance with your instructions, we have made an appraisal on the fair market value of a 100 per cent. interest in the technologies of modifying the WD615 series and WD618 series diesel engines (“the Technologies”) as of 1 January, 2003 (“the Valuation Date”). We understand that the Technologies were, as at 1 January, 2003, held by Weifang Diesel Engine Factory (濰坊柴油機廠) (“Weichai Factory”).

We understand that the appraisal will be used in connection with a listing of the H shares of the Company (the “Listing”) by way of placing and public offer (collectively the “Offering”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). This letter summarises the principal conclusions of our valuation.

BACKGROUND

Established in 1953 in Shandong, the PRC, Weichai Factory was one of the first diesel engine manufacturers in the PRC. The Company, as a continuation of Weichai Factory, is principally engaged in the manufacture of diesel engines for heavy-duty vehicles and coaches, construction machines, vessels and power generators. Products of the Company are the high-speed heavy-duty WD615 series and WD618 series diesel engines. The WD615 series diesel engines of the Company are currently manufactured through modifying the basic WD615 diesel engine technology (“the Basic WD615 Technology”) developed by Steyr-Daimler-Puch Aktiengesellschaft, while the WD618 diesel engine series of the Company are produced through modifying the basic WD618 technology developed by Steyr Nutzfahrzeuge AG (“the Basic WD618 Technology”).

THE TECHNOLOGIES

The Technologies basically refer to three patented technologies (“Patented Technologies”) and a list of specialised technologies (“Specialised Technologies”) invented by Weichai Factory for the period from 1998 to 2003. The three Patented Technologies are 實用新型專利－單油門柴油機調速器外置式操縱機構 (“Practical New Design Patent – A”), 實用新型專利－柴油機氣缸體 (“Practical New Design Patent - B”) (collectively, “the Practical New Design Patents”) and 外觀設計專利－柴油機氣缸體 (“Exterior Design Patent”). Specialised Technologies refer to the technologies modified from the Basic WD615 Technology and the Basic WD618 Technology for improving the performance of the WD615 series and WD618 series diesel engines, respectively. According to our understanding, the Technologies are, in fact, new technological designs specialising for different systems or structures in the WD615 and WD618 high-speed diesel engines so as to significantly improve their performance in term of lower emission volume, greater horsepower and more adaptive to different physical conditions. These features are believed the important competitive advantages to the Company that help to secure its leading position in the high-speed diesel engine market.

THE BASIC TECHNOLOGIES

The Basic WD615 Technologies refer to the basic know-how for the development and manufacturing of diesel engines of the WD615 series. And the Basic WD618 Technologies refer to the basic know-how for the development and manufacturing of diesel engines of the WD618 series. We are aware that both the Basic WD615 Technologies and WD618 Technologies are the fundamental skills in constructing and assembling the respective models of diesel engines.

THE PATENTED TECHNOLOGIES

Details of the Patented Technologies are shown as follows:

1) Patent Information

a) The Exterior Design Patent (外觀設計專利)

Chinese Name of Patent:	外觀設計專利－柴油機氣缸體
Patent No.:	ZL 01 3 51969.7
Patent Application Date:	7 December, 2001
Patent Authorised Date:	19 June, 2002
Patent Holder:	濰坊柴油機廠
Effective Duration:	10 years (Started from the Application Date)

b) The Practical New Design Patent – A (實用新型專利)

Chinese Name of Patent:	實用新型專利－ 單油門柴油機調速器外置式操縱機構
Patent No.:	ZL 01 2 68893.2
Patent Application Date:	7 December, 2001
Patent Authorised Date:	28 August, 2002
Patent Holder:	濰坊柴油機廠
Effective Duration:	10 years (Started from the Application Date)

c) The Practical New Design Patent – B (實用新型專利)

Chinese Name of Patent:	實用新型專利－柴油機氣缸體
Patent No.:	ZL 01 2 68894.0
Patent Application Date:	7 December, 2001
Patent Authorised Date:	28 August, 2002
Patent Holder:	濰坊柴油機廠
Effective Duration:	10 years (Started from the Application Date)

2) Description of Patented Technologies

The Exterior Design Patent mainly focuses on modifying the exterior shape of the diesel engines such that it is not necessary to lengthen the WD615 diesel engine even greater combustion power is generated. According to the technical staff of the Company, it is found to be more cost effective and competitive in keeping the diesel engine size unchanged while the engine power is increased.

The Practical New Design Patents now mainly apply to the WD615.46 diesel engines of the Company. New technological designs on the diesel engines involve the structural changes in the engine cylinder system, cooling & lubricating system, fuel injection system, valve-connecting shaft, and air-inhaling and exhausting system that serve to increase combustion efficiency as well as to reduce emission of air pollutants in order to meet the Euro II emission standard.

THE SPECIALISED TECHNOLOGIES

1) List of Certificates

The tables below indicate a complete list of certificates containing all specialised technologies under this valuation exercise. Normally, for each assessment certificate, a combination of specialised technologies are assessed in terms of their functionality and effectiveness in a specific model of diesel engine. Table (1a) refers to the technologies assessed by provincial assessment authorities while table (1b) refers to those assessed by Weichai Factory itself. During the period from 1998 to 2003, the provincial authorities awarded a total of 22 assessment certificates to Weichai Factory, of which 20 certificates related to WD615 series and 2 certificates belong to WD618 series. Weichai Factory also did the assessments itself and issued 13 assessment certificates to its technical department, of which 11 certificates belong to WD615 series while the remaining two certificates were awarded to WD618 series.

Table 1: Specialised Technologies for the Period from 1998 to 2003

1a) Group One Certificates (Level of Assessment – Provincial)

No.	Date of Assessment	Certificate No.	Product Involved
WD615 SERIES			
1	1999.8.4	魯科成【1999】第410	氣體體WT61500
2	1999.12.27	魯機技鑒字【99】第312	柴油機WD615.6703-28
3	2000.9.7	魯機技鑒字2000-98	柴油機WD615.67G3-29
4	2000.9.7	魯機技鑒字2000-99	柴油機WD615.67G3-29A
5	2000.9.7	魯機技鑒字2000-100	柴油機WD615.67G3-31
6	2000.9.7	魯機技鑒字2000-101	柴油機WD615.67G3-31A
7	2000.9.7	魯機技鑒字2000-102	柴油機WD615.67G3-36
8	2000.9.7	魯機技鑒字2000-103	柴油機WD615.67G3-36A
9	2001.12.14	魯機技鑒字2001-124	柴油機WD615.68A
10	2001.12.14	魯機技鑒字2001-128	柴油機WD615.67A
11	2001.12.14	魯機技鑒字2001-129	柴油機WD615.64A
12	2001.12.14	魯機技鑒字2001-130	柴油機WD615.61A
13	2002.11.14	魯經貿技鑒字2002-123	高原柴油機WD615.64T
14	2002.11.14	魯經貿技鑒字2002-124	柴油機WD61500G6
15	2002.11.14	魯經貿技鑒字2002-125	高原柴油機WD615.64G

No.	Date of Assessment	Certificate No.	Product Involved
16	2002.11.14	魯經貿技鑒字2002-126	柴油機WD61500G4
17	2002.11.14	魯經貿技鑒字2002-127	高原柴油機WD615.68D-16
18	2002.11.14	魯經貿技鑒字2002-128	柴油機WD615T1-3A
19	2002.11.14	魯經貿技鑒字2002-129	高原柴油機WD615.61G
20	2003.1.16	魯經貿技鑒字2003-21	柴油機WD615.46

WD618 SERIES

1	2000.7.17	魯機技鑒字2000-82	柴油機WD618 (36/39/42)
2	2003.1.16	魯機貿技鑒字2003-25	船用柴油機WD618 C-1

1b – Group Two Certificates (Level of Assessment – Factory)

No.	Date of Assessment	Certificate No.	Product Involved
WD615 SERIES			
1	2001.1.9	2001-001	柴油機WT615.67CA-18
2	2002.11.17	2002-011	柴油機WD615 612600150030 油底殼整體成型
3	2002.12.25	2002-015	船用柴油機WD615.68CA
4	2002.1.16	2002-016	柴油機WD615.46
5	2003.6.5	濰柴鑒字2003-003	柴油機WD615.46C
6	2003.6.5	濰柴鑒字2003-004	柴油機WD615.68GA
7	2003.6.5	濰柴鑒字2003-005	柴油機WD615.68GA-1
8	2003.6.24	濰柴鑒字2003-006	柴油機WD615連杆高溫變熱處理
9	2003.7.3	濰柴鑒字2003-007	柴油機WD615.39
10	2003.7.3	濰柴鑒字2003-008	混凝土運輸車用柴油機WD615.44
11	2003.7.3	濰柴鑒字2003-009	柴油機WD615.44Q

WD618 SERIES

1	2000.5.23	2000-001	二氣門柴油機WD618 series
2	2002.10.25	2002-010	柴油機WD618C-1

2) Description of Specialised Technologies

a) WD615

The WD615 specialised technologies refer to the technologies modified from the Basic WD615 Technology for improving the performance of the WD615 diesel engines mainly in terms of increased power output, lowered fuel cost and reduced emission of air pollutants. The specialised technologies mainly focus on the structural modifications of a variety of systems inside the WD615 diesel engines that serve to increase combustion efficiency and reduce emission of air pollutant. These changes are found in the engine cylinder system, engine valves and combustion chamber, gear transmission system, crank shaft, cooling and lubricating system, fuel injection system, and air inhaling and gas exhaust system. For each assessment certificate, it often involves a combination of customised new technologies that produce a synergic effect in improving the overall performance of diesel engines under different operating conditions.

b) WD618

The WD618 specialised technologies refer to the technologies modified from the Basic WD618 Technology for improving the performance of the WD618 diesel engines, mainly in terms of increased power output and reduced emission of air pollutants under different operating conditions. According to the assessment certificates on WD618(36/39/42) and WD618C-1 respectively awarded by the provincial authorities, 山東省機械工業廳 and 山東省機械工業辦公室, the specialised technologies on WD618 series mainly consist of the structural changes in the engine cylinder system, gear transmission system, crank shaft, cooling and lubricating system, fuel injection system and air inhaling and exhausting system as well as the implementation of an intelligent monitoring system.

BASIS AND METHODOLOGY OF VALUATION

Our valuation has been carried out on a fair market value basis. Fair market value is defined as the estimated amount for which an asset should be exchanged on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

As part of our analysis, we are furnished with information prepared by the Company that includes audited pro forma financial statements of the Company for the three years ended 31 December, 2002, half year audited financial statements of the Company ended 30 June, 2003, revenue analysis of Weichai Factory and related operational information regarding the subject businesses and the Technologies. We have also conducted personal interviews with senior staff of the Company and Weichai Factory and have relied to a considerable extent on such information in arriving at our opinion of value.

Valuation of the Technologies requires consideration of all relevant factors affecting the operation of the business that related to the Technologies, obsolescence of the Technologies as well as the ability of the Technologies to generate future economic profits. Factors considered in the valuation included, but were not limited to, the following:

- nature of the business and its operating environment in the market;
- financial conditions of the business and the economic outlook in general;
- past and projected operating results;
- future development of the business with or without the Technologies;
- the forecast pace on the obsolescence of the Technologies;
- the PRC Government policies on environment protection ;
- the proposed time schedule of the PRC Government for implementing different stages of emission control on heavy and medium diesel trucks; and
- financial and business risks of the enterprise including its capital structure, the continuity of income and the projected future results.

In this valuation, the fair market value of the Technologies was developed through two techniques, namely the relief from royalty technique and incremental profit approach. Relief from royalty technique is a specific application of the discounted cash flow method. Using this technique, we first estimated the value of royalties which the Company is exempt from by virtue of the fact that it owns the Technologies. Income derived from these notional royalties is subsequently discounted at an appropriate discount rate. The discount rate used in the analysis is developed to reflect all business risks including intrinsic and extrinsic uncertainties in relation to the particular technologies. The fair market value of the Technologies was also developed through the Incremental Profit Method. Using this technique we evaluate revenue and associated costs under the scenarios of “with the Technologies” and “without the Technologies”. Incremental income derived from applying the Technologies in future years is subsequently discounted at an appropriate discount rate. The discount rate used in the analysis is developed to reflect all business risks including intrinsic and extrinsic uncertainties in relation to the particular Technologies.

MAJOR ASSUMPTIONS**1) Business Environment**

We have assumed there will be no material change in existing political, legal, technological, fiscal or economic condition, which will adversely affect the businesses under concern.

2) Foreign Exchange

We have assumed currency exchange rates in the future will not differ materially from those prevailing.

3) Key Management

We have assumed the Company will retain its key management, competent personnel and technical staff to support the ongoing operation.

4) Competitiveness

We have assumed competitive advantages and disadvantages of the businesses do not change significantly during the valuation period.

5) Market Trend

We assume market trend and conditions for the diesel engine manufacturing industry in the PRC will not deviate significantly from the economic forecasts in general.

6) We have estimated the future cash flow up to year 2008.

7) We have only considered in this valuation the Specialised Technologies and Patented Technologies involved in the manufacture of WD615 series and WD618 series diesel engines.

8) We have only considered in our valuation the revenue from WD615 series and WD618 series in the PRC.

9) We have only considered a collection of operating income and related expenses such as direct costs, management costs and taxes. We have not made provision for non-operating cash flow items such as interest income, exchange rate gain/loss, etc. in the valuation model.

OPINION OF VALUE

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. While the assumptions and consideration of such matters are considered to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company.

In conclusion, based on our aforesaid investigation, analysis and valuation methodology employed, it is our opinion that as of the Valuation Date, the fair market value of the Technologies is reasonably stated by the amount of **RMB280 MILLION (RENMINBI TWO HUNDRED AND EIGHTY MILLION ONLY) EQUIVALENT TO HK\$264 MILLION (HONG KONG DOLLARS TWO HUNDRED AND SIXTY-FOUR MILLION ONLY).**

We have not investigated the title to or any liabilities against the Technologies valued. We hereby certify that we have neither present nor prospective interests in the Company or value reported.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited

Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS, MHKIS, MSc (e-com)
Executive Director

Edwin K.F. Chan
MBA (Finance)
Senior Manager

Note: Mr. Raymond Ho Kai Kwong, Chartered Surveyor, *MRICS, MHKIS, MSc (e-com)* has over 2 years of experience in the valuation of technologies in Hong Kong and the PRC.

Mr. Edwin Chan holds a master degree of business administration in finance and has over 2 years of experience in the valuation of technologies in Hong Kong and the PRC.

The following is the text of a valuation report received from Vigers Appraisal & Consulting Limited, an independent valuer, prepared for the purpose of incorporation into the Prospectus, in respect of the valuation of the trademarks interest of the Company as at 1 January, 2003.

Vigers Appraisal & Consulting Limited
International Property Consultants



10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

26 February, 2004

The Directors
Weichai Power Co., Ltd.
26 Minshengdong Street
Kuiwen District
Weifang City
Shandong Province
the PRC

Dear Sirs/Madams,

In accordance with your instructions, we have made an appraisal on the fair market value of a 100 per cent. interest in the trademarks namely “Weichai”, “潍柴”, “同心” (collectively the “Trademarks”) as of 1 January, 2003 (“the Valuation Date”). We understand that the Trademarks were, as at 1 January, 2003, held by Weifang Diesel Engine Factory (潍坊柴油機廠) (“Weichai Factory”).

We understand that the appraisal will be used in connection with a listing of the H shares of the Company (the “Listing”) by way of placing and public offer (collectively the “Offering”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). This letter summarises the principal conclusions of our valuation.

BACKGROUND

Established in 1953 in Shandong, the PRC, Weichai Factory is one of the first diesel engine manufacturers in the PRC. The Company, as a continuation of Weichai Factory, is principally engaged in the manufacture of diesel engines for heavy-duty vehicles and coaches, construction machines, vessels and power generators. Products of the Company under the Trademarks being valued are the high-speed heavy-duty WD615 series and WD618 series diesel engines.

THE TRADEMARKS

Trademarks, trade names, service marks, and logos are considered as intangible assets and marketing-related intellectual properties, which are protected by various laws and statutes in a vast majority of countries today. Nowadays, some companies license their trademarks to other parties in return for a royalty fee. This practice is believed to substantially enhance the presence of licensees in their respective markets within a short period of time while minimal expenditure in marketing and promotion is incurred. Generally speaking, a licensor would allow a licensee to use a specific intellectual property with a pre-agreed profit-sharing arrangement in terms of a percentage of net profit or gross revenue. A benchmark is usually set and measured based on those indicators reflecting the financial and operating performance of the business such as percentage of costs saving, percentage of revenue generated, dollar amount per unit sold or dollar amount per unit produced. Pre-agreed rates are normally defined as “royalty rate”, “royalty income” or “royalty fee”.

The trademark “同心” together with the name of Weichai Factory (i.e. 潍柴廠) have been existed in the market for a long time since the establishment of the Company, while “Weichai” and “潍柴” are the new trademarks recently adopted in majority of the Company’s products. We are aware that the trademarks “Weichai”, “潍柴” and “同心”, in fact, represent the same logo though having different word expressions, giving an obvious impression to the market that they refer to the same products of the Company. According to the management of the Company, the Company has been permitted to use the Trademarks since 1 January, 2003, up to 27 January, 2012 (for the 潍柴 and Weichai trademarks), and 29 November, 2012 (for the 同心 trademark).

The Trademarks being valued include the followings:

Trademark/ Service marks	Registration number	Expiry Date	Place of Registration
同心	620216	29 November, 2012	PRC
WEICHAI	1705556	27 January, 2012	PRC

Note: The application for the registration of the “潍柴” trademark in the PRC is still under progress.

BASIS AND METHODOLOGY OF VALUATION

Our valuation has been carried out on a fair market value basis. Fair market value is defined as the estimated amount for which an asset should be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

As part of our analysis, we are furnished with information prepared by the Company that includes audited pro forma financial statements of the Company for the three years ended 31 December, 2002, half year audited financial statements of the Company ended 30 June, 2003, revenue analysis of Weichai Factory and related operational information regarding the subject businesses and the Trademarks. We have also conducted personal interviews with senior staff of the Company and Weichai Factory and have relied to a considerable extent on such information in arriving at our opinion of value.

Valuation of the Trademarks requires consideration of all relevant factors affecting the operation of the business that related to the Trademarks as well as the ability of the Trademarks to generate future economic profits. Factors considered in the valuation included, but were not limited to, the following:

- nature of the business and its operating environment in the market;
- financial conditions of the business and the economic outlook in general;
- future development of the business and its commitment to various intangible assets;
- past and projected operating results; and
- financial and business risks of the enterprise including its capital structure, the continuity of income and the projected future results.

In this valuation, the fair market value of the Trademarks was developed through a specific application of the discounted cash flow method known as the relief from royalty technique. Using this technique we first estimated the value of royalties which the Company is exempt from by virtue of the fact that they own the Trademarks. Income derived from these notional royalties is subsequently discounted at an appropriate discount rate. The discount rate used in the analysis is developed to reflect all business risks including intrinsic and extrinsic uncertainties in relation to the particular trademark.

According to the management of the Company, the net proceeds of the Offering to which the Company is entitled will be used to finance the Company's capital expenditure and business expansion, as well as to strengthen its capital base and financial position for future development. We believe these investments would not have an immediate enhancing effect on the value of the Trademarks but

the Listing and the proposed use of a portion of the proceeds of the Offering would be much helpful in enhancing the public awareness of the tradenames and expanding the sales and distribution networks of the Company. Nevertheless, the effects would be difficult to be gauged in the short run. The value of the Trademarks would be reasonably derived from the results of past performance and experience.

MAJOR ASSUMPTIONS

1) Business Environment

We have assumed there will be no material change in existing political, legal, technological, fiscal or economic condition, which will adversely affect the businesses under concern.

2) Foreign Exchange

We have assumed currency exchange rates in the future will not differ materially from those prevailing.

3) Key Management

We have assumed the Company will retain its key management, competent personnel and technical staff to support the ongoing operation.

4) Competitiveness

We have assumed competitive advantages and disadvantages of the businesses do not change significantly during the valuation period.

5) Market Trend

We assume market trend and conditions for the diesel engine manufacturing industry and other related industries in the PRC will not deviate significantly from the economic forecasts in general.

6) We have only considered in our valuation the three trademarks namely “Weichai”, “潍柴” and “同心”.

- 7) We have only considered in this valuation the sales of WD615 series and WD618 series.
- 8) We have only considered a collection of operating income and related expenses such as direct costs, management costs and taxes. We have not made provision for non-operating cash flow items such as interest income, exchange rate gain/loss, etc. in the valuation model.

OPINION OF VALUE

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. While the assumptions and consideration of such matters are considered to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company.

In conclusion, based on our aforesaid investigation, analysis and valuation methodology employed, it is our opinion that as of the Valuation Date, the fair market value of the Trademarks is reasonably stated by the amount of **RMB140 MILLION (RENMINBI ONE HUNDRED AND FORTY MILLION ONLY) EQUIVALENT TO HK\$132 MILLION (HONG KONG DOLLARS ONE HUNDRED AND THIRTY-TWO MILLION ONLY).**

We have not investigated the title to or any liabilities against the Trademarks valued. We hereby certify that we have neither present nor prospective interests in the Company or value reported.

Yours faithfully,

For and on behalf of

Vigers Appraisal & Consulting Limited

Raymond Ho Kai Kwong

Registered Professional Surveyor

MRICS, MHKIS, MSc (e-com)

Executive Director

Edwin K.F. Chan

MBA (Finance)

Senior Manager

Note: Mr. Raymond Ho Kai Kwong, Chartered Surveyor, *MRICS, MHKIS, MSc (e-com)* has over 8 years of experience in the valuation of trademarks in Hong Kong, Macau and the PRC.

Mr. Edwin Chan holds a master degree of business administration in finance and has 3 years of experience in the valuation of trademarks in Hong Kong and the PRC.

This appendix sets out summaries of PRC company and securities laws and regulations, certain material differences between the Company Law and Hong Kong Companies Ordinance, additional regulatory provisions introduced by the Stock Exchange in relation to PRC joint stock limited companies and the Articles of Association. The main objective is to provide investors with an overview of the rights and obligations of shareholders of the Company and the principal legal and regulatory provisions applicable to the Company.

1. PRC LEGAL AND REGULATORY PROVISIONS

(A) Company Law

On 29 December, 1993, the Standing Committee of the Eighth NPC adopted the Company Law which came into effect on 1 July, 1994 and was amended on 25 December, 1999. Companies established under laws, administrative regulations, local laws and the Standard Opinion for Limited Liability Companies, and the Standard Opinion for Joint Stock Limited Companies formulated by the relevant departments of the State Council before the implementation of the Company Law will need to comply with the Company Law. Those companies which have not wholly complied with the provisions of the Company Law shall comply with the relevant requirements within a specified period of time. The State Council may separately promulgate detailed implementing measures.

Set out below is a summary of the major provisions of the Company Law, the Special Regulations and Mandatory Provisions. On 4 July, 1994, the Special Regulations were passed at the Twenty-second Standing Committee Meeting of the State Council and were promulgated and implemented on 4 August, 1994. The Special Regulations are formulated according to the provisions of Sections 85 and 155 of the Company Law in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions were issued jointly by the Securities Commission and the State Commission for Restructuring the Economic System on 27 August, 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association (which are summarised in this appendix IV). References to a “company” are to a joint stock limited company established under the Company Law with overseas listed foreign invested shares.

Copies of the Chinese text of the Company Law, Special Regulations and the Mandatory Provisions together with copies of their unofficial English translations thereof are available for inspection as mentioned in the section headed “Documents Delivered to the Registrar of Companies and Available for Inspection” in appendix VI.

General

A “joint stock limited company” is a corporate legal person incorporated under the Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the shares held by them, and the liability of the company is limited to the full amount of all the assets owned by it.

A State-owned enterprise that is restructured into a company must comply with the conditions and requirements specified by law and administrative regulations, for the modification of its operation mechanisms, the systematic handling and evaluation of the company’s assets and liabilities and the establishment of internal management organs.

A company must conduct its business in accordance with laws and professional ethics, promote the concept of a socialist market economy and be subject to the supervision of the government and the general public.

A company may invest in other limited liability companies and joint stock companies and the company’s liabilities with respect to such invested companies are limited to the amount invested. However, apart from investment companies and holding companies specified by the State Council, the amount of a company’s aggregate investment in other companies may not exceed 50% of its net assets.

Incorporation

A company may be incorporated by promotion or public subscription.

A company may be incorporated by a minimum of five promoters, and at least half of the promoters must reside within the PRC. According to the Special Regulations, State-owned enterprises or enterprises with the majority of their assets owned by the PRC Government can be restructured in accordance with the relevant regulations to become joint stock limited companies which may issue shares to overseas investors. These companies, if incorporated by public subscription, may have less than five subscribers and can issue new shares once incorporated.

Companies incorporated by promotion are companies of which the entire registered capital is subscribed for by the promoters. Where companies are incorporated by public subscription, not less than 35% of their total shares must be subscribed for by the promoters and the remainder of their shares shall be offered to the public.

The registered capital of a company is the amount of its total paid up capital as registered with the relevant administration for industry and commerce. The minimum registered capital of a company is RMB10 million. The total capital of a company which proposes to apply for its shares to be listed on a stock exchange must not be less than RMB50 million.

The establishment of a company must be approved by the department authorised by the State Council or by the provincial level people's government.

The promoters shall convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and shall give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before the meeting. The inaugural meeting may be convened only with the presence of subscribers holding shares representing more than 50% of the voting rights in the company. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with at least half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company. A company is formally established and has the status of a legal person after the approval for registration has been given by the relevant administration for industry and commerce and a business licence has been issued. Companies established by the public subscription method shall file a report on the offer of shares with the securities administration department of the State Council for record.

A company's promoters shall individually and collectively be liable for: (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company. According to the Provisional Regulations Concerning the Issue and Trading of Shares promulgated by the State Council on 22 April, 1993 (which is only applicable to issue and trading of shares in the PRC and their related activities), if a company is established by means of subscription, the promoters of such company are required to assume joint responsibility for the accuracy of the contents of the Prospectus and to ensure that the Prospectus does not contain any misleading statement or omit any material information.

Share capital

The promoters may make capital contribution in cash, or in kind or by way of injection of assets, industrial property rights, non-patented technology or land use rights based on their appraised value. The amount of investment made in the form of industrial property rights and non-patented technology may not exceed 20% of the registered capital of the company.

If capital contribution is made other than in cash, valuation and verification of the property contributed must be carried out for conversion of the property into shares.

A company may issue registered or bearer share certificates. However, shares issued to promoters, state-authorised investment organisations and PRC legal persons shall be in the form of registered share certificates, and may not be registered under a different name or in the name of an agent.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas must be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic invested shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council in accordance with the measures specifically formulated by the State Council. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The share offering price may be equal to or greater than but not less than the par value.

The transfer by a shareholder of its shares must be carried out through a lawfully established stock exchange. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by laws or administrative regulations. Bearer share certificates are transferred by delivery of the certificates to the transferee.

Shares held by a promoter of a company may not be transferred for three years after the company’s establishment. Directors, supervisors and the manager of a company shall not transfer the shares they hold in the company during their term of office. There is no restriction under the Company Law as to the percentage of shareholding a single shareholder may hold in a company.

Transfers of shares may not be entered in the register of shareholders within 30 days before the date of a shareholders’ meeting or within five days before the record date set for the purpose of distribution of dividends.

Increase in capital

Under the Company Law, an increase in capital in a company by means of an issue of new shares must be approved by shareholders in general meeting and meet the following conditions:

- (i) the previous issue of shares has been fully subscribed for and at least one year has elapsed since that issue. However, under the Special Regulations, if a company increases its capital for the issue of overseas listed foreign invested shares, the period elapsed since the last issue of shares may be less than 12 months;
- (ii) the company has been profitable for the last three consecutive years and is able to make dividend payments to its shareholders;
- (iii) there has been no false reporting in the company’s financial and accounting documents during the last three years; and
- (iv) the company’s expected profit rate is comparable to the bank deposit rate for the same term.

Once the shareholders in general meeting have passed a resolution to issue new shares, the board of directors must apply to the authorised department of the State Council or to the provincial level people’s government for approval. Approval of the securities administration department of the State Council shall also be sought for public offers.

After payment in full for the new shares issued, a company must change its registration with the relevant bureau for the administration for industry and commerce and issue a public notice accordingly.

Reduction of share capital

Subject to the minimum registered capital requirements, a company may reduce its registered capital in accordance with the following procedures prescribed by the Company Law:

- (i) the company shall prepare a balance sheet and an inventory of the assets;
- (ii) the reduction of registered capital must be approved by shareholders in general meeting;
- (iii) the company shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in newspaper at least three times within 30 days after the resolution approving the reduction has been passed;
- (iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and
- (v) the company shall apply to the relevant administration for industry and commerce for registration of the reduction in registered capital.

Repurchase of shares

A company may not purchase its own shares other than for the purpose of reducing its capital by cancelling its shares or merging with another company holding its shares or such other purposes permitted by laws and administrative regulations. The Mandatory Provisions provide that upon obtaining approvals in accordance with the articles of association of the company and from the relevant supervisory authorities, a company may repurchase its issued shares for the foregoing purposes by way of a general offer to its shareholders or purchase on a stock exchange or an off-market contract.

Under the Company Law, within 10 days following the purchase of a company's own shares, a company must in accordance with applicable laws and administrative regulations cancel that portion of its shares, change its registration and issue a public notice.

Transfer of shares

Shares may be transferred in accordance with the relevant laws and regulations.

A shareholder may only effect a transfer of its shares on a stock exchange established in accordance with law. Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by applicable laws and regulations.

Shares issued to promoters may not be transferred within three years after the establishment of the company. Shares held by directors, supervisors and the manager of a company may not be transferred during their term of office with the company.

There is no restriction under the Company Law as to the percentage shareholding of a single shareholder of a company.

Shareholders

Shareholders have such rights and obligations as set down in the articles of association of the company. The articles of association of a company are binding on each shareholder.

Under the Company Law, the rights of a shareholder include:

- (i) to attend in person or appoint a proxy to attend shareholders' general meetings, and to vote in respect of the number of shares held;
- (ii) to transfer his shares at a legally established stock exchange in accordance with the Company Law and the articles of association of the company;
- (iii) to inspect the company's articles of association, minutes of shareholders' general meetings and financial and accounting reports and to make proposals or enquiries in respect of the company's operations;
- (iv) if a resolution adopted by a shareholders' general meeting or the board of directors violates any laws or administrative regulations or infringes the lawful rights and interests of shareholders, to institute an action in the People's Court demanding that the illegal infringing action be stopped;
- (v) to receive dividends in respect of the number of shares held;
- (vi) to receive surplus assets of the company upon its termination in proportion to his or her shareholding; and
- (vii) any other shareholders' rights specified in the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by him and any other shareholders' obligation specified in the company's articles of association.

General meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the Company Law.

The shareholders' general meeting exercises the following powers:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect or remove the directors and decide on matters relating to the remuneration of directors;
- (iii) to elect or remove the supervisors who are representatives of shareholders and decide on matters relating to the remuneration of supervisors;
- (iv) to examine and approve reports of the board of directors;
- (v) to examine and approve reports of the supervisory committee;
- (vi) to examine and approve the company's proposed annual financial budget and final accounts;
- (vii) to examine and approve the company's proposals for profit distribution and for make good of losses;
- (viii) to decide on any increase or reduction in the company's registered capital;
- (ix) to decide on the issue of bonds by the company;
- (x) to decide on issues such as merger, division, dissolution and liquidation of the company and other matters; and
- (xi) to amend the articles of association of the company.

Shareholders' general meeting is required to be held once every year. An extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following circumstances:

- (i) the number of directors is less than the number provided for in the Company Law or less than two-thirds of the number specified in the company's articles of association;
- (ii) the aggregate losses of the company which are not made up reach one-third of the company's total share capital;
- (iii) a request by shareholders holding 10% or more of the company's shares;
- (iv) when deemed necessary by the board of directors; or
- (v) when the supervisory committee proposes convening it.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors.

Notice of the meeting shall be given to all shareholders 30 days before the meeting under the Company Law and 45 days under the Special Regulations and the Mandatory Provisions, stating the matters to be considered at the meeting. Under the Special Regulations and the Mandatory Provisions, shareholders wishing to attend are required to give to the company written confirmation of their attendance 20 days prior to the meeting. Under the Special Regulations, at an annual general meeting of a company, shareholders holding 5% or more of the voting rights in the company are entitled to propose to the company in writing additional resolutions to be considered at that meeting, which if within the powers of a shareholders' general meeting, are required to be added to the agenda of that meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold.

Resolutions of the shareholders' general meeting must be adopted by more than half of the votes cast by shareholders present in person (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division or dissolution of a company which must be adopted by shareholders with more than two-thirds of the voting rights held by shareholders present (including those represented by proxies) at the meeting. According to the Mandatory Provisions, the increase or reduction of share capital, the issue of bonds or debentures, and any other matters in respect of which the shareholders by ordinary resolution so decide, must be approved by more than two-thirds of the voting rights held by the shareholders present in person or by proxy in the general meeting. Amendments to the articles of association of a company must be approved by more than two-thirds of the shareholders present in general meeting.

Shareholders may appoint representatives to attend shareholders' general meetings by a written appointment stating the scope of exercising the voting rights.

There is no specific provision in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. However, the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holders of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

Directors

A company shall have a board of directors, which shall consist of five to nineteen members. Under the Company Law, each term of office of a director shall not exceed three years. A director may serve consecutive terms if re-elected.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors at least 10 days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the Company Law, the board of directors exercises the following powers:

- (i) to convene the shareholders' general meeting and report on its work to the shareholders;
- (ii) to implement the resolutions of the shareholders' general meeting;
- (iii) to decide on the company's business plans and investment plans;
- (iv) to formulate the company's proposed annual financial budget and final accounts;
- (v) to formulate the company's proposals for profit distribution and for recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- (vii) to prepare plans for the merger, division or dissolution of the company;
- (viii) to decide on the company's internal management structure;
- (ix) to appoint or dismiss the company's general manager, and based on the general manager's recommendation, to appoint or dismiss deputy general managers and financial officers of the company and to decide on their remuneration; and
- (x) to formulate the company's basic management system.

In addition, the Mandatory Provisions provide that the board is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors, provided that, according to the Mandatory Provisions, resolutions in respect of plans for increase or deduction of share capital, issue of bonds, merger, division or dissolution of the company and amendment to the articles of association must be approved by not less than two thirds of the directors.

If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorisation to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the Company Law, the following persons may not serve as a director of a company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated due to a mismanagement and who are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business licence revoked due to violation of the laws and who are personally liable, where less than three years have elapsed since the date of the revocation of the business licence;
- (v) persons who have a relatively large amount of debt due and outstanding; or
- (vi) persons who are State civil servants.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in this appendix).

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors is the legal representative of the company and exercises, amongst others, the following powers:

- (i) to preside over shareholders' general meetings and convene and preside over meetings of the board of directors;
- (ii) to oversee the implementation of the resolutions of the board of directors;
and
- (iii) to sign the company's share certificates and bonds.

The Special Regulations provide that a company's directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in this appendix) contains further elaborations of such duties.

Supervisors

A company shall have a supervisory committee composed of not less than three members. Each term of office of a supervisor is three years and he may serve consecutive terms if re-elected.

The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff and workers. Directors, managers and financial officers may not act concurrently as supervisors.

The supervisory committee exercises the following powers:

- (i) to review the company's financial position;
- (ii) to supervise the directors and managers in their performance of their duties and to ascertain whether or not they have violated laws, regulations or the articles of association of the company;

- (iii) when the acts of a director or manager are harmful to the company's interests, to require correction of those acts;
- (iv) to propose the convening of extraordinary shareholders' general meetings;
and
- (v) other powers specified in the company's articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to supervisors of a company.

As mentioned above, the Special Regulations provide that a company's supervisors, among other persons, shall bear fiduciary duties. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. A supervisor is also required to attend board meetings as a non-voting attendant.

Managers and officers

A company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and exercise the following powers:

- (i) supervise the production, operation and administration of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) arrange for the implementation of the company's annual business and investment plans;
- (iii) formulate plans for the establishment of the company's internal management structure;
- (iv) formulate the basic administration system of the company;
- (v) formulate the company's rules and regulations;
- (vi) recommend the appointment and dismissal of deputy managers and financial controller and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);
- (vii) attend board meetings as a non-voting attendant; and

- (viii) other powers conferred by the board of directors or the company's articles of association.

The Special Regulations and Mandatory Provisions provide that the other senior management of a company includes the financial controller, secretary to the board of directors and other executives as specified in the articles of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and officers of the company.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in the Articles of Association (a summary of which is set out in this appendix).

Duties of directors, supervisors, managers and officers

A director, supervisor, manager and an officer of a company are required under the Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly and protect the interests of the company. A director, supervisor, manager and an officer of a company is also under a duty of confidentiality to the company and is prohibited from divulging the secret information of the company save as permitted by the relevant laws and regulations or by the shareholders.

A director, supervisor, manager and an officer who contravenes any law, regulation or the company's articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor, manager and an officer of a company owes fiduciary duties to the company and is required to perform his duties faithfully and to protect the interests of the company and not to make use of his positions in the company for his own benefit.

Finance and accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the regulations of the relevant department of the State Council and at the end of each financial year prepare a financial report which shall be audited and verified as provided by law.

A company shall deposit its financial statements at the company for the inspection by the shareholders at least 20 days before the convening of the annual general meeting of shareholders. A company established by the public subscription method must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory common reserve fund (except where the fund has reached 50% of the company's registered capital) and 5% to 10% of its after-tax profit for the company's statutory public welfare fund.

When the company's statutory common reserve fund is not sufficient to make good the company's losses of the previous year, current year profits shall be used to make good the losses before allocations are set aside for the statutory common reserve fund or the statutory public welfare fund.

The company's statutory public welfare fund is used for the collective welfare of the company's staff and workers.

The shareholders in general meeting may resolve to transfer any amount from the after-tax profit of the company to the discretionary common reserve after transferring the requisite amount to the statutory common reserve fund.

After the company has made good its losses and made allocations to its statutory surplus reserve fund and statutory public welfare fund, the remaining profits could be available for distribution to Shareholder in proportion to the number of shares held by the shareholders.

The common reserve of a company comprises the statutory common reserve, discretionary common reserve and the capital common reserve.

The capital common reserve of a company is made up of the premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital common reserve.

The common reserve of a company shall be applied for the following purposes:

- (i) to make good the company's losses;
- (ii) to expand the business operations of the company; and
- (iii) to pay up the registered capital of the company and issue new shares to shareholders in proportion to their existing shareholdings in the company or increase the par value of the shares currently held by the shareholders provided that if the statutory common reserve is converted into registered capital, the balance of the statutory common reserve after such conversion shall not be less than 25% of the registered capital of the company.

Appointment and retirement of auditors

The Special Regulations require a company to employ an independent PRC qualified accounting firm to audit the company's annual report and review and examine other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next annual general meeting.

If a company removes or ceases the appointment of its auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided by the shareholders and shall be registered with the CSRC.

Distribution of profits

The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendments to articles of association

Any amendments to the company’s articles of association must be made in accordance with the procedures set forth in the company’s articles of association. Any amendment of provisions incorporated in the articles of association in accordance with the Mandatory Provisions will only be effective after approval by the approval department authorised by the State Council and CSRC. In relation to matters involving the company’s registration, its registration with the companies registration authority must also be changed.

Termination and liquidation

A company may apply for the declaration of insolvency by reason of its inability to pay debts as they fall due. After the People’s Court has made a declaration of the company’s insolvency, the shareholders, the relevant authorities and the relevant professionals shall form a liquidation committee to conduct the liquidation of the company.

Under the Company Law, a company shall be dissolved in any of the following events:

- (i) the term of its operations set down in the company’s articles of association has expired or events of dissolution specified in the company’s articles of association have occurred;
- (ii) the shareholders in general meeting have resolved to dissolve the company;
or
- (iii) the company is dissolved by reason of its merger or demerger.

Where the company is dissolved in the circumstances described in (i) or (ii) above, a liquidation committee must be established within 15 days. Members of the liquidation committee shall be appointed by the shareholders in the general meeting.

If a liquidation committee is not established within the stipulated period, the company’s creditors can apply to the People’s Court for its establishment.

The liquidation committee shall notify the company’s creditors within 10 days after its establishment, and issue at least 3 public notices in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 90 days of the first public notice if he did not receive any notification.

The liquidation committee shall exercise the following powers during the liquidation period:

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- (ii) to notify creditors or issue public notices;
- (iii) to deal with and settle any outstanding business of the company;
- (iv) to pay any tax overdue;
- (v) to settle the company's financial claims and liabilities;
- (vi) to handle the surplus assets of the company after settlement of its debts;
and
- (vii) to represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labour insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them.

A company shall not engage in new business operations during the liquidation period.

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the People's Court for a declaration for bankruptcy. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the People's Court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders in general meeting or the relevant supervisory department for verification. Thereafter, the report shall be submitted to the companies registration authority in order to cancel the company's registration, and a public notice of the termination of the company shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with relevant laws. A member of the liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his wilful or material default.

Overseas listing

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue overseas listed foreign invested shares and domestic invested shares which has been approved by the Securities Commission may be implemented by the board of directors of a company by way of separate issues, within 15 months after approval is obtained from CSRC.

Loss of share certificates

A shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a People's Court in the event that share certificates in registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates (which has been incorporated in the Articles of Association, a summary of which is set out in this appendix).

Suspension and termination of listing

The trading of shares of a company on a stock exchange may be suspended if so decided by the securities administration department of the State Council under one of the following circumstances:

- (i) the share capital or shareholding distribution no longer comply with the requisite requirements for a listed company;
- (ii) the company failed to make public its financial position in accordance with the requirements or there is false information in the company's financial report;
- (iii) the company has committed a major breach of the law; or
- (iv) the company has incurred losses for three consecutive preceding years.

Under the circumstances referred to in (ii) and (iii) above, if an investigation reveals that the consequences are serious, or under the circumstances referred to in (i) and (iv) above, the situation has not been rectified within the time stipulated, the securities administration department of the State Council may decide to terminate the listing of a company's shares.

The securities administration department of the State Council may also terminate the listing of a company's shares in the event that the company resolves to be dissolved or is so instructed by its government supervisory body, or the company is declared bankrupt.

Merger and demerger

The merger or demerger of a company is to be decided by the shareholders in general meeting subject to the approval of departments authorised by the State Council or the approval of the provincial government.

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

A merger agreement must be signed in the case of a merger of companies and the relevant companies shall draw up their respective balance sheets and inventory of property. The companies shall within 10 days of the resolution of the merger inform their respective creditors and publish a notice to the creditors in newspapers at least 3 times, within 30 days of such resolution being passed. Those creditors who had not received written notice may within 90 days of the first published notice, or within 30 days after receiving written notice, request the company to satisfy any unpaid debt or provide equivalent guarantees in cases of guarantees. Companies unable to repay such debts or provide guarantees will not be allowed to merge. Newly merged entities shall be responsible for the debts and obligations of the companies involved in the merger.

When a company demerges into two companies, their respective assets must be separated and separate financial accounts must be drawn up.

When a company's shareholders approve the demerger of the company, the company shall notify all its creditors within 10 days of such resolution being passed and advertise the same at least three times in newspapers within 30 days. A creditor may within 30 days after receiving written notice or, a creditor who has not received such notice may within 90 days from the first public advertisement, demand that the company repay any outstanding debts or to provide an appropriate guarantee.

Changes in registered particulars of the companies caused by merger or demerger must be registered in accordance with applicable laws.

(B) Securities law and regulations

Since 1992, the PRC has promulgated a number of regulations in relation to the issue of and trading in securities and disclosure of information.

In October 1992, the State Council established the Securities Commission and the CSRC. The Securities Commission is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the Securities Commission and is responsible for the drafting of regulatory provisions governing securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking research and analysis. In early 1998, the State Council dissolved the Securities Commission, and the former functions of the Securities Commission were assumed by the CSRC.

On 22 April, 1993, the State Council promulgated the Provisional Regulations Concerning the Issue and Trading of Shares. These regulations deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, and transfer of listed equity securities, the disclosure of information with respect to a listed company, enforcement and penalties and dispute settlement. These regulations specifically provide that separate provisions will be promulgated in relation to the issue of and trading in special Renminbi-denominated shares. However, (i) if a PRC joint stock limited company proposes to issue Renminbi-denominated ordinary shares as well as special Renminbi-denominated shares, it has to comply with these regulations in respect of its issue of Renminbi-denominated ordinary shares; (ii) if a PRC company proposes to offer shares directly or indirectly outside the PRC, it will require the approval of the Securities Commission; and (iii) provisions of these regulations in relation to acquisitions of listed companies and disclosure of information are expressed to apply to listed companies in general without being confined to listed companies on any particular stock exchange. Hence it is possible that such provisions may be applicable to joint stock limited companies with shares listed on a stock exchange outside the PRC, including, for instance, joint stock limited companies with shares listed on the Stock Exchange, such as the Company.

On 12 June, 1993, pursuant to the Provisional Regulations Concerning the Issue and Trading of Shares, the CSRC promulgated the Implementation Measures (Provisional) on Disclosure of Information. Pursuant to these measures, the CSRC is responsible for supervising the disclosure of information by companies which have offered shares to the public both in the PRC and overseas. These measures contain provisions regarding Prospectuses and listing reports to be issued in connection with a public offering of shares in the PRC, publication of interim and final reports and announcement of material transactions or matters by companies which have offered shares to the public. Material transactions or matters are those the occurrence of which may have a material effect on the share price of a company. They include, without limitation, changes to a company's articles of association or registered capital, removal of auditors, charge or disposal of major operating assets or writing down the value of such assets of an amount exceeding 30% of the total value of such assets, revocation by a court of any resolution passed by the shareholders or the supervisors of a company and the merger or demerger of a company. These measures also contain disclosure provisions in relation to acquisition of listed companies which supplement the requirements contained in the Provisional Regulations Concerning the Issue and Trading of Shares.

On 2 September, 1993, the Securities Commission promulgated the Provisional Measures Prohibiting Fraudulent Conduct relating to Securities. The prohibitions imposed by these measures include the use of insider information in connection with the issue of or trading in securities (insider information being defined to include undisclosed material information known to any insider, which may affect the market price of securities); the use of funds or information or the abuse of power in creating a false or disorderly market or influencing the market price of securities or inducing investors to make investment decisions without knowledge of actual circumstances; and the making of any statement in connection with the issue of and trading in securities which is false or materially misleading and in respect of which there is any material omission. Penalties imposed for contravening any of the provisions of the measures include fines, confiscation of profits and suspension of trading. In serious cases, criminal liability may be imposed.

On August, 1994, the State Council promulgated the Special Regulations. These provisions deal with primarily the issue, subscription, trading and declaration of dividends and other distributions of foreign capital stock listed abroad and disclosure of information, articles of association of joint stock limited companies having foreign capital stock listed abroad.

On 25 December, 1995, the State Council promulgated the Regulations of the State Council Concerning the Domestic Listed Foreign Shares of Joint Stock Limited Companies. These regulations deal mainly with the issue, subscription and trading of, and declaration of dividends and other distributions on, domestic listed Foreign Shares and disclosures of information by joint stock limited companies having domestic listed Foreign Shares.

On 29 December, 1998, the Standing Committee of the National People's Congress promulgated the Securities Law of the PRC. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities such as the issuance and trading of securities in the PRC securities market. The Securities Law became effective on 1 July, 1999. The Securities Law is applicable to the issuance and trading in the PRC of shares, company bonds and other securities designated by the State Council according to law. Where the Securities Law does not apply, the provisions of the Company Law and other applicable laws and administrative regulations regarding securities will apply.

On 29 March, 1999, the State Economic and Trade Commission and the CSRC promulgated the Opinion on the Further Promotion of the Regular Operation and In-Depth Reform of Companies Listed Overseas which is aimed at regulating the internal operation and management of PRC companies listed overseas. The Company will be subject to the Opinion upon listing of the H Shares on the Stock Exchange. The Opinion regulates, amongst others, the appointments and functions of external directors and independent directors in the board of directors; and the appointment and functions of external supervisors and independent supervisors in the supervisory committee.

(C) The Arbitration Law

The Arbitration Law of the PRC (the "Arbitration Law") was promulgated by the Standing Committee of the NPC on 31 August, 1994 and came into effect on 1 September, 1995. It is applicable to, among other matters, investment disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration by an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate provisional arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a People's Court except when the arbitration agreement is not valid.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and in the case of the Listing Rules, also in a contract between the company and each director and supervisor, to the effect that whenever any dispute or claim arises from any rights or obligations provided in the Articles of Association, the Company Law and other relevant laws and administrative regulations concerning the affairs of a company between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and a holder of domestic shares, unless otherwise specified in the articles of association, such parties shall submit that dispute or claim to arbitration before either the CIETAC or the HKIAC for arbitration. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC. CIETAC is an economic and trade affairs arbitration organ in the PRC. Pursuant to the China International Economic and Trade Arbitration Commission Arbitration Rules, effective on 1 October, 2000, CIETAC's jurisdiction covers disputes relating to the Hong Kong Special Administrative Region. CIETAC is located in Beijing with branches in Shenzhen and Shanghai.

Under the Arbitration Law, an arbitral award is final and binding on all parties and if a party fails to comply with an award, the other party to the award may apply to the People's Court for enforcement. A People's Court may refuse to enforce an arbitral award made by an arbitration commission if there are certain procedural or membership irregularities or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the New York Convention adopted on 10 June, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December, 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (1) the PRC will only recognise and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC will only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations. Following the resumption of sovereignty over Hong Kong by the PRC on 1 July, 1997, the New York Convention no longer applies to the enforcement of Hong Kong arbitration awards in other parts of the PRC. A Memorandum of Understanding on the arrangement for reciprocal enforcement of arbitral awards between

Hong Kong and China has been signed in June 1999. The new arrangement is made in accordance with the spirit of the New York Convention. To meet present day's needs, it will allow awards made over 100 China arbitral authorities with relevant experience to be enforced in Hong Kong. Under the agreed arrangement, Hong Kong arbitration awards will also be enforceable in China. This new arrangement has been approved by the Hong Kong Legislative Council and the Supreme People's Court of the PRC and became effective in February 2000.

(D) Taxation

Currently, there is no estate or inheritance tax under the PRC laws.

2. HONG KONG LEGAL AND REGULATORY PROVISIONS

(A) Hong Kong company law and its comparison with the PRC law applicable to a joint stock limited company incorporated under the Company Law

Hong Kong company law is primarily set out in the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the "Companies Ordinance") and supplemented by common law.

There are material differences between Hong Kong company law and the PRC law applicable to a joint stock limited company incorporated under the Company Law, to which the Company is and will be subject, particularly in the area of investor protection. Certain material differences between the Company Law and Hong Kong company law are summarised below. This summary, however, is not intended to be an exhaustive comparison. It should also be noted that the summary relates only to joint stock limited companies incorporated under the Company Law.

Derivative action by minority shareholders

Hong Kong law allows minority shareholders to start a derivative action on behalf of the general body of shareholders in cases where, for example, one or more of the directors are in breach of duty and where their actions are shielded by the majority shareholders. The PRC Civil Procedure Law does not provide for such a procedure. Although the Company Law gives (a) shareholder(s) of a company the right to initiate proceedings in the People's Court to restrain any resolution adopted by shareholders in general meeting or at a meeting of the board of directors which is in violation of any law or infringes the lawful rights and interests of the shareholder(s), there is no form of proceedings which is the same as a derivative action under the Companies Ordinance. However, each of the Directors and Supervisors (as required) has given a written undertaking to the Company (acting as agent for each shareholder) to observe and comply with his obligations to shareholders stipulated in the Articles of Association. This allows minority shareholders to commence direct actions against defaulting Directors.

Remedies of the Company

Under the Company Law, if a director, supervisor or manager in carrying out his duties violates any law or administrative regulation or the articles of association of a company, resulting in damage to the company, that director, supervisor or manager shall be responsible to the company for such damages. In addition, in compliance with the Listing Rules, remedies of the Company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits made by a Director, Supervisor or officer) have been set out in the Articles of Association.

Directors, officers and supervisors

The Company Law provides for the dismissal of directors, supervisors and managers in circumstances where they enter into business contracts with the Company, and for prohibitions of certain unauthorised benefits, but contains no provision restricting the authority of the directors to make major dispositions or prohibiting payment to them for loss of office without shareholders' approval. The Company Law, unlike Hong Kong company law, does not contain restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits such as loans to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. Neither does the Company Law contain any requirements relating to the declaration of material interests in contracts with the Company as is required under Hong Kong company law, nor restrictions on interested directors being counted towards the quorum of, and voting at, a meeting of the board of directors at which a transaction in which a director is interested is being considered. However, the Mandatory Provisions contain certain restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in this appendix.

Under Hong Kong company law, there is no concept of a supervisory committee for a company in addition to its board of directors, but a PRC joint stock limited company must have supervisors whose main duties include ensuring compliance with laws and regulations, and the articles of association of the company, by its directors and managers.

Each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he or she considers to be the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Minority protection

Under Hong Kong laws, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may present a petition to the court either to wind up the company or to make an appropriate order regulating the affairs of the company. In addition, at an application of a specified number of members, the financial secretary may appoint investigators who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. There is no specific provision in the Company Law to guard against oppression by the majority shareholders of minority shareholders but the Company, as required by the Mandatory Provisions and the Listing Rules, has adopted in the Articles of Association minority protection provisions similar to (though not as comprehensive as) those available under Hong Kong law, to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders to relieve a director or supervisor of his or her duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

Receiving agent

Under both PRC and Hong Kong law, dividends once declared become debts payable to shareholders, but the limitation of action period is two years in the PRC as opposed to six years in Hong Kong. The Articles of Association provide for the appointment of an agent in Hong Kong which must be a trust corporation registered under the Trustee Ordinance in Hong Kong to receive all dividends payable to H Share holders and all other monies owing by a joint stock limited company in respect of such H Shares on behalf of such shareholders as required by the Listing Rules.

Financial assistance for the acquisition of shares

The Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. The Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

Variation of class rights

The Company Law makes no specific provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other classes of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These

provisions have been incorporated in the Articles of Association, which are summarised in this appendix. Under the Companies Ordinance, no rights attached to any class of shares can be varied except with the approval of a special resolution of the holders of the relevant class at a separate meeting or the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question or by agreement of all the members of the Company or if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions. The Company (as required by the Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic invested shares are defined in the Articles of Association as different classes, except where (i) the Company issues and allots, in any 12-month period, pursuant to a shareholders' special resolution, not more than 20% of each of the issued overseas listed foreign invested shares and the issued domestic invested shares existing as at the date of the shareholders' special resolution; and (ii) the plan for the issue of domestic invested shares and listed foreign invested shares upon its establishment is implemented within 15 months following the date of approval by the Securities Commission. The Mandatory Provisions contain detailed provisions relating to circumstances which are deemed to constitute a variation of class rights.

Corporate reorganisations

Corporate reorganisations involving compromises with creditors and members in respect of Hong Kong incorporated companies are dealt with under section 166 of the Companies Ordinance and require court sanction. Corporate reorganisation involving Hong Kong incorporated companies may also be effected by the transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Companies Ordinance. For PRC companies, such reorganisations are administratively considered and sanctioned under the Company Law.

Share capital

For a joint stock limited company formed under the Company Law, the registered share capital and the issued share capital are the same. For a Hong Kong company, the authorised share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, cause the company to issue new shares. In the case of a PRC company, any increase of the registered capital must be approved by the shareholders in general meeting and the relevant PRC Government and regulatory authorities. After completion of an approved new issue, the company has to register the increase in share capital with the relevant administration for industry and commerce.

The minimum registered capital of a company which has applied for the listing of its shares on a stock exchange is RMB50 million under the Company Law. Hong Kong law does not prescribe any minimum capital requirements for a Hong Kong company.

Under the Company Law, the shares subscribed for in the form of intangible assets (excluding land use rights) may not exceed 20% of a joint stock limited company's registered capital. There is no such restriction under Hong Kong law on a Hong Kong company.

Restriction on shareholding and transfer of shares

The Company Law makes no reference to the class of shares which may be subscribed for or traded by overseas investors but has provisions that shares of a company to be listed overseas must comply with the Special Regulations. The Special Regulations and the Mandatory Provisions provide that H shares must be in registered form and include other matters some of which are referred to above. There is no restriction under Hong Kong law on a person's ability to deal in shares in a Hong Kong company on the basis of his residence or nationality.

Under the Company Law, shares in a joint stock limited company held by its promoters, directors or managers may not be transferred within certain periods of time. There is no such restriction under Hong Kong law.

Notice of meetings

Under the Company Law, shareholders of a joint stock limited company must be given 30 days' notice of a general meeting or, in the case of bearer shares, such notice should be published 45 days before the meeting. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders, and shareholders wishing to attend the meeting must reply in writing to reach the company 20 days before the date of the meeting. For a Hong Kong limited company, the minimum period of notice of a general meeting where convened for the purpose of considering ordinary resolutions is 14 days and where convened for the purpose of considering special resolutions, is 21 days. The notice period for an annual general meeting is also 21 days.

Quorum

Under Hong Kong law, any one shareholder personally present will constitute a quorum for a general meeting, unless the articles of association provide otherwise. The Company Law makes no specific provision as to when a quorum is regarded as being

present but the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, that the company shall within 5 days notify shareholders in a public announcement and the annual general meeting may be held thereafter.

Voting

Under Hong Kong's company law, ordinary resolutions are passed by more than one-half of the votes cast by those shareholders voting in person or by proxy at a general meeting and special resolutions are passed by not less than three-quarters of such votes. Under the Company Law, the passing of any resolution requires the passing by more than half of the votes of the shareholders attending and voting except in cases of proposed amendment to the articles of association, merger, division or dissolution of a company, where the approval of a two-third majority is required.

Dividends

The Articles of Association empower the Company to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC law, the relevant limitation period is two years.

Financial disclosure

A joint stock limited company is required under the Company Law to make available at its office for inspection by shareholders its annual balance sheet, statement of income, statement of changes in financial situation and other relevant annexes 20 days before the annual general meeting of shareholders. In addition, a company established by the public subscription method under the Company Law must publish its financial statements. The annual balance sheet has to be audited by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report not less than 21 days before its annual general meeting.

Under the Articles of Association (as required by the Listing Rules and the Mandatory Provisions), in addition to preparing accounts according to PRC accounting standards, the Company must have its accounts prepared and audited in accordance with

international accounting standards or Hong Kong accounting standards. The Company is further required to publish its interim and annual accounts within 90 days from the end of the first six months of a financial year and within 120 days from the end of a financial year, respectively.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on directors and shareholders

The Company Law gives shareholders of a company the right to inspect its articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (after payment of reasonable charges) certain information on shareholders and on Directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

Arbitration of disputes

In Hong Kong, disputes between shareholders and a company or its directors, managers and other senior officers may be resolved through the courts. The Articles of Association provide that disputes between a holder of H Shares and the Company and its directors, managers or other senior administrative officers or a holder of Domestic shares arising from the Articles of Association, the Company Law or other relevant laws or administrative regulations which concern the affairs of the Company must be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice. Such arbitration is final and conclusive.

Mandatory deductions

Under the Company Law, after-tax profits of a company are subject to deduction of contributions to the statutory common reserve fund and the statutory public welfare fund of a company before they can be distributed to shareholders. There are prescribed limits under the Company Law for such deductions. There are no corresponding provisions under the Companies Ordinance.

Fiduciary duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the Company Law and the Special Regulations, directors, supervisors, officers, and managers owe a fiduciary duty towards their company and are not permitted to engage in any activities, which compete with or damage the interests of their company.

Closure of register of shareholders

The Companies Ordinance of Hong Kong requires that the register of shareholders of a company may not be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the Company's Articles of Association provide, as required by the Company Law, that share transfers may not be registered within 30 days before the date of a general meeting or within five days before the record date set for the purpose of distribution of dividends.

(B) Other legal and regulatory provisions

Upon the listing of the Company on the Stock Exchange, the provisions of the Securities and Futures Ordinance of Hong Kong, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to the Company.

(C) Securities Arbitration Rules

The Articles of Association provide that certain claims arising under the Articles of Association or the Company Law shall be arbitrated at either CIETAC or HKIAC in accordance with their respective rules.

The Securities Arbitration Rules of HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving disputes concerning the affairs of companies listed on the Stock Exchange and incorporated in the PRC (other than Hong Kong, Macau and Taiwan) so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditionally upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where any party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

(D) Listing Rules

The Listing Rules contain certain provisions specifically relating to the primary listing of equity securities of companies incorporated or otherwise established in the PRC. Set out below is a summary of the major provisions which apply to the Company.

Sponsor

The Company is required to retain, for at least one year (or such shorter period as the Stock Exchange may, at its absolute discretion, permit) following its listing, the services of its sponsor or any other financial adviser or professional firm which is acceptable to the Stock Exchange, to provide the Company with professional advice on continuous compliance with the Listing Rules and its listing agreement, and to act at all times as the Company's principal channel of communication with the Stock Exchange, in addition to the two authorised representatives of the Company appointed pursuant to the Listing Rules.

The Company must ensure that its sponsor has access at all times to its authorised representatives, Directors and other officers and is given such information and assistance as it may request in connection with the performance of its duties. The Company should also ensure that there are adequate and efficient means of communication between itself, its authorised representatives, Directors and other officers and the sponsor and should keep the sponsor fully informed of all communications and dealings between it and the Stock Exchange. The Company must not terminate the services of its sponsor until a replacement acceptable to the Stock Exchange is appointed. Where such sponsor's role is terminated by the Company, both the Company and the former sponsor should immediately notify the Stock Exchange of such termination, in each case stating the reason why such appointment was terminated, and the Company and the new sponsor should immediately notify the Stock Exchange of the new sponsor's appointment.

If the Stock Exchange is not satisfied that the sponsor is fulfilling its responsibilities adequately under the Listing Rules, it may require the Company to terminate the sponsor's appointment and appoint a replacement as soon as possible. The Company and the new sponsor should immediately notify the Stock Exchange of the new sponsor's appointment.

The sponsor must be satisfied that the Company is suitable to be listed, that the Directors and the Supervisors appreciate the nature of their responsibilities and can be expected to honour their obligations under their respective undertakings, the Listing Rules, the listing agreement and the applicable laws and regulations and that the Directors understand what is required of them under the Listing Rules, the listing agreement and the applicable laws and regulations.

The sponsor must keep the Company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the Company. The sponsor must provide advice to the Company on the continuing requirements under the Listing Rules, the listing agreement and the applicable laws and regulations. It must act as the Company's principal channel of communication with the Stock Exchange if the authorised representatives of the Company are expected to be frequently outside Hong Kong.

Accountants' reports

An accountants' report will not normally be regarded as acceptable by the Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong, which means that it must conform with either Hong Kong or international accounting standards.

Process agent

The Company must appoint and retain throughout the period its securities are listed on the Stock Exchange a person authorised to accept service of process and notices on its behalf in Hong Kong and must notify the Stock Exchange of his or her appointment and any termination of his or her appointment and his or her contact particulars.

Public shareholdings

If at any time there are existing issued securities of the Company, other than the H Shares which are listed on the Stock Exchange, the Listing Rules require that (i) all the H Shares must be held by the public except as otherwise permitted by the Stock Exchange in its discretion; (ii) the H Shares held by the public must constitute not less than 10% of the Company's total existing issued share capital; and (iii) the aggregate amount of the H Shares and other securities held by the public must constitute not less than 25% of the Company's total existing issued share capital.

If the Company does not have existing issued securities other than the H Shares, the H Shares held by the public must constitute not less than 25% of the Company's total existing issued share capital unless the expected market value of the H shares at the time of listing is over HK\$4,000 million, in which case, the Stock Exchange will normally accept a prescribed percentage of the H Shares (as a portion of total existing issued share capital) to be held by the public of between 10% and 25% as the number of securities concerned will normally be sufficient to ensure that there is an open market.

Independent non-executive Directors and Supervisors

The independent non-executive Directors are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. At least one of the independent non-executive Directors must be ordinarily resident of Hong Kong. The Supervisors must have the character, experience and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

Restrictions on purchase and subscription

The Company may purchase its own Shares on the Stock Exchange in accordance with the Listing Rules. Shareholders' approval must first be obtained prior to carrying out a share repurchase, by way of special resolution of shareholders in general meeting and of the holders of Domestic Shares and the holders of the H Shares at separate class meetings, in accordance with the procedures prescribed by the Articles of Association. When seeking shareholders' approval to make purchases of its securities on the Stock Exchange or when reporting such purchases, the Company should provide information to its shareholders on the proposed or actual purchase of any or all of its equity securities, whether or not listed or traded on the Stock Exchange. There should also be a statement as to the consequences of any purchases which will arise under either or both of the Hong Kong Codes on Takeovers and Mergers and Share Repurchases and any similar applicable law of which the Directors are aware, if any. Any general mandate given to the Directors to repurchase the H Shares must not exceed 10% of the total amount of existing issued the H shares of the Company.

With a view to increasing the level of protection afforded to investors, the Stock Exchange requires the incorporation, in the Articles of Association of a PRC company which is listed on the Stock Exchange, of the Mandatory Provisions and provisions including those relating to the change, removal and resignation of auditors, classification of shareholders and the conduct of the supervisory committee of the Company. Such provisions have been incorporated into the Articles of Association, a summary of which has been set out in this appendix.

Listing agreement

The Company's listing agreement with the Stock Exchange is in substantially the same form as the listing agreement for an overseas company seeking a listing on the Stock Exchange, subject to certain modifications and additional requirements which may be summarised as follows:

(1) Redeemable shares

The Company shall not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of the holders of the H Shares are adequately protected. The Company shall inform the Stock Exchange as soon as possible after any purchase, sale, disposal or redemption by the Company, or any of its subsidiaries, of its securities.

(2) Pre-emptive rights

Except in the circumstances mentioned below, the Directors must obtain the approval by way of special resolution of shareholders in general meeting, and the approvals by way of special resolution of holders of Promoter Shares and holders of the H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles prior to:

- (i) authorising, allotting, issuing or granting:
 - (a) shares;
 - (b) securities convertible into shares; or
 - (c) options, warrants or similar rights to subscribe for any shares or such convertible securities; or
- (ii) any major subsidiary of the Company making any such authorisation, allotment, issue or grant which will materially dilute the percentage equity interests of the Company and its shareholders in such subsidiary.

Notwithstanding in the circumstances mentioned below, the Directors shall obtain the approval by way of special resolution of shareholders in general meeting prior to allotting any voting shares if such allotment would effectively alter the control of the Company.

No such approval shall be required in the case of authorising, allotting or issuing shares if, but only to the extent that, the existing shareholders of the Company have by way of special resolution in general meeting given approval, either unconditionally or subject to such terms and conditions as may be specified in the resolution, for the Company to authorise, allot or issue either separately or concurrently once in every 12 months (commencing on the date on which the Shareholders pass such resolution), not more than 20% of each of the existing Promoter Shares and H Shares as at the date of the passing of the relevant special resolution or such shares are part of the Company's plan at the time of its establishment to issue the Promoter Shares and H Shares and which plan is implemented within 15 months from the date of approval by the State Council Securities Policy Committee.

(3) Changes to the Articles of Association

The Company shall inform the Stock Exchange of any decision made in regard to any proposed alteration to the Articles of Association and any proposed request by the Company to a PRC competent authority to waive or otherwise notify any provision of the Special Regulations.

(4) Documents for inspection

The Company must make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by shareholders at reasonable charges, the following:

- (a) a complete duplicate register of shareholders;
- (b) a report showing the state of the issued share capital of the Company;
- (c) the Company's latest audited financial statements and the Directors', auditors' and Supervisors' reports thereon;
- (d) special resolutions of the Company;
- (e) reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between the Domestic Shares and H Shares);

- (f) a copy of the latest annual return filed with the PRC State Administration for Industry and Commerce or any other competent PRC authority; and
 - (g) for shareholders only, copies of the minutes of meetings of shareholders.
- (5) Appointment of receiving agents

The Company must appoint one or more receiving agents in Hong Kong and pay to such agents dividends declared and other monies owing by the Company in respect of the H Shares listed on the Stock Exchange to be held, pending payment, in trust for holders of the H Shares.

- (6) Statements to be made on acquisition of shares

The Company must ensure that all its listing documents and share certificates include the statements stipulated below and must instruct and cause its H Shares registrar not to register the subscription, purchase or transfer of any of the H Shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect:

- (a) The acquirer of Shares agrees with the Company and each shareholder of the Company, and the Company agrees with each shareholder, to observe and comply with the Company Law, the Special Regulations and the Articles of Association.
- (b) The acquirer of Shares agrees with the Company, each shareholder, Director, Supervisor, manager and officer of the Company and the Company acting for itself and for each Director, Supervisor, manager and officer agrees with each shareholder to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association. Any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct its hearing in open session and to publish its award. Such arbitration shall be final and conclusive.

- (c) The acquirer of Shares agrees with the Company and each shareholder of the Company that H Shares in the Company are freely transferable by the holder thereof.
 - (d) The acquirer of Shares authorises the Company to enter into a contract on his behalf with each Director and officer whereby such Directors and officers undertake to observe and comply with their obligations to shareholders stipulated in the Articles of Association.
- (7) Compliance with the Company Law, the Special Regulations and Articles of Association

The Company must observe and comply with the Company Law, the Special Regulations and the Articles of Association.

- (8) Contract between the Company and every Director and officer

The Company must enter into a contract in writing with every Director and Officer containing at least the following provisions:

- (a) an undertaking by the Director or officer to the Company to observe and comply with the Company Law, the Special Regulations, the Articles of Association, the Hong Kong Codes on Takeovers and Mergers and Share Repurchases and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- (b) an undertaking by the Director or officer to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and
- (c) an arbitration clause which provides that whenever any disputes or claims arise from the listing agreement, the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company between (1) the Company and its Directors or officers and (2) a holder of overseas listed foreign shares and a Director or officer of the Company, such disputes or claims shall be resolved through arbitration at either CIETAC in accordance with its arbitration rules or HKIAC in accordance with its Securities Arbitration Rules, at the election of the party seeking arbitration. Where a dispute or claim described above is referred to arbitration,

the entire dispute or claim shall be resolved through that arbitration; all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are shareholders, Directors, Supervisors, managers or other officers of the Company or the Company, shall submit to arbitration.

Disputes over who is a shareholder and over the share register do not have to be resolved through arbitration.

If the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC. Once the party seeking arbitration submits a dispute or claim to arbitration, the other party must submit to the arbitral body selected by the party seeking the arbitration.

PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations. The award of the arbitral body is final and shall be binding on the parties thereto.

The agreement to arbitrate is made by the Director or officer with the Company on its own behalf and on behalf of each shareholder. Any reference to arbitration is deemed to authorise the arbitral tribunal to conduct hearings in open session and to publish its award.

(9) Contract between the Company and every Supervisor

The Company must enter into a contract in writing with every Supervisor containing at least the following provisions:

- (a) an undertaking by the Supervisor to the Company to observe and comply with the Company Law, the Special Regulations and the Articles of Association, and an agreement that the Company will have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- (b) an undertaking by the Supervisor to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and

- (c) the arbitration clause in terms set out in sub-paragraph (8)(c) above subject to necessary modifications.

The Company is required to adopt rules governing dealings by its Supervisors in securities of the Company on such terms no less exacting than those of the Model Code for Securities Transactions by Directors of Listed Companies issued by the Stock Exchange which apply to directors of companies listed on the Stock Exchange.

(10) Subsequent listing

The Company must apply for the listing of any further securities, which are of the same class as the securities already listed, prior to their issue, and must not issue such securities unless it has applied for the listing of these securities. The Company must not apply for the listing of any of its foreign invested shares on a PRC stock exchange unless the Stock Exchange is satisfied that the relative rights of the holders of overseas listed foreign shares are adequately protected.

(11) English translation

All notices or other documents required under the listing agreement to be sent by the Company to the Stock Exchange or to holders of the H Shares shall be in the English language, or accompanied by a certified English translation.

General

If changes in the PRC law or market practices materially alter the validity or accuracy of any of the bases upon which the above requirements have been prepared, then the Stock Exchange may impose additional requirements or make the listing of the equity securities of a PRC issuer, including the Company, subject to such special conditions as the Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of the listing of the shares of the Company.

(E) Taxation in Hong Kong

The following summary of certain taxation provisions relevant to investing in H Shares is based on current law and practice, it is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in H Shares. Accordingly, each prospective investor should consult its own tax adviser regarding

the tax consequences of an investment in H Shares. The discussion is based on the laws and the relevant interpretations thereof in effect as at the date of this Prospectus, all of which are subject to changes.

(i) *Taxation of dividends*

Under current practice of the Hong Kong Inland Revenue Department, no profits tax is payable in Hong Kong in respect of dividends paid by a company which is not subject to Hong Kong profits tax.

(ii) *Taxation of gains*

No profits tax is imposed in Hong Kong in respect of capital gains from the sale of property, such as shares. Trading gains from the sale of property by persons who carry on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business are liable to profits tax. Gains from the sale of shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Securities dealers carrying on a trade or business in Hong Kong will therefore be subject to profits tax on trading gains from the sale and purchase of H Shares from such trade or business. Currently, profits tax for corporations is payable currently at the rate of 17.5% of their assessable profits. Profits tax for individuals is levied on a progressive scale and the maximum flat rate is currently at 15.5%.

(iii) *Stamp duty*

The sale and purchase of H Shares will be subject to stamp duty payable by both the seller and the buyer at the current rate of HK\$1 per HK\$1,000, or part thereof, of the consideration or, if higher, the fair value of the H Shares transferred (ie. a total of HK\$2 per HK\$1,000 or part thereof is currently payable on a typical sale and purchase transaction involving H Shares). A fixed rate of duty of HK\$5 is also payable in respect of every instrument of transfer of H Shares.

(iv) *Estate duty*

Properties situated in Hong Kong which pass or are deemed to pass upon the death of a person, wherever domiciled or resident, are liable to estate duty based on the value of the property in question. H Shares will constitute property situated in Hong Kong for estate duty purposes by virtue of them being on the Hong Kong H Share register of the Company. Hong Kong estate duty is imposed on a progressive scale from

5% to 15%. The rate of and the threshold for estate duty have, in the past, been adjusted on a fairly regular basis. No estate duty is payable where the aggregate value of the dutiable estate does not exceed HK\$7.5 million, and the maximum rate of duty of 15% applies where the aggregate value of the dutiable estate exceeds HK\$10.5 million.

3. ARTICLES OF ASSOCIATION

Set out below is a summary of the principal provisions of the Articles of Association (and the relevant articles therein shall be referred to as the “Articles”) adopted at an extraordinary general meetings of the Company. Copies of the full English and Chinese texts of the Articles of Association are available for inspection as mentioned in the section headed “Documents delivered to the registrar of companies and available for inspection” in appendix VI to this Prospectus.

(a) Directors

(i) *Power to allot and issue shares*

There are no provisions in the Articles empowering the Directors to allot and issue shares.

In order to increase the share capital of the Company and issue new shares, the Board must prepare a detailed plan and draft amendments to the Articles to permit the increase for approval by shareholders in general meeting by way of special resolution subject to the relevant procedures and the approval of the relevant regulatory authorities of the PRC.

(ii) *Power to dispose of the assets of the Company*

The Board shall not, without the prior approval of shareholders in general meeting, dispose of or agree to dispose of any fixed assets of the Company where the aggregate of:

- (A) the amount or value of the consideration for the proposed disposition, and
- (B) where any fixed assets of the Company have been disposed of in the period of four months immediately preceding the proposed disposition, the amount or value of the consideration for any such disposition,

exceeds 33% of the value of the Company’s fixed assets as shown in the latest balance sheet placed before the shareholders in general meeting. The validity of a disposition by the Company shall not be affected by the breach of the relevant Article. For the purpose of such Article, disposition includes an act involving the transfer of some interest in property other than by way of security.

(iii) Remuneration and payments for loss of office

The Company shall, with the prior approval of shareholders in general meeting, enter into a contract in writing with a Director or a Supervisor wherein his emoluments are stipulated, including:

- (A) emoluments in respect of his service as director, supervisor or senior management officer of the Company;
- (B) emoluments in respect of his service as director, supervisor or senior management officer of any subsidiary of the Company;
- (C) emoluments in respect of the provision of other services in connection with the management of the affairs of the Company and any of its subsidiaries; and
- (D) payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office.

Except under a contract entered into in accordance with the foregoing, no proceedings may be brought by a Director or Supervisor against the Company for anything due to him in respect of the above matters.

The contract concerning the emoluments between the Company and its Directors or Supervisors should provide that in the event of a takeover of the Company, the Company's Directors and Supervisors shall, subject to the prior approval of the shareholders in general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. A "takeover of the Company" referred to in this paragraph means any of the following:

- (A) an offer made by any person to the general body of shareholders; or
- (B) an offer made by any person with a view to the offeror becoming a "controlling shareholder" within the meaning set out in the Articles.

If the relevant Director or Supervisor does not comply with the above provisions, any sum so received by him shall belong to those persons who have sold their Shares as a result of the said offer made. The expenses incurred in distributing that sum pro rata amongst the aforesaid persons shall be borne by the relevant Director or Supervisor and not paid out of the sum so distributed.

(iv) Loans to Directors, Supervisors and other senior management officers

The Company shall not directly or indirectly make a loan to or provide any guarantee in connection with the making of a loan to a director, supervisor, general manager, or other senior management officer of the Company or of the Company's holding company or a person connected with any of them. However, the following transactions are not subject to such prohibition:

- (A) the provision by the Company of a loan or a guarantee of a loan to a company which is a subsidiary of the Company;
- (B) the provision by the Company of a loan or a guarantee in connection with the making of a loan or any other funds to any of its Directors, Supervisors, general manager, and other senior management officers to meet the expenditure incurred or to be incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders in general meeting; or
- (C) the Company may make a loan to or provide a guarantee in connection with a loan by another person to any of its Directors, Supervisors, general manager and other senior management officers or persons connected to him in the ordinary course of its business and on normal commercial terms, where the ordinary course of business of the Company includes the lending of money or the giving of guarantees.

A loan made by the Company in breach of the prohibition described above shall be repayable forthwith by the recipient of the loan regardless of the terms of the loan.

A guarantee provided by the Company in breach of the prohibition described above shall be unenforceable against the Company, unless:

- (A) the guarantee was provided in connection with a loan to a person connected with a director, supervisor, general manager or other senior management officer of the Company or its holding company and at the time the loan was advanced the lender was not aware of the relevant circumstances; or
- (B) the security provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

For the purpose of this paragraph:

- (A) a guarantee includes an undertaking or property provided to secure the performance of obligations by the obligor; and
 - (B) the definition of a connected person in sub-paragraph (xi) below shall, *mutatis mutandis*, apply.
- (v) *Financial assistance to purchase shares in the Company or any of its subsidiaries*

Save as described below, no financial assistance shall be provided at any time and in any manner by the Company or its subsidiaries to any person acquiring or intending to acquire the shares of the Company. The person(s) acquiring the shares of the Company aforesaid shall include the person(s) who undertake(s), directly or indirectly, obligations as a result of an acquisition of shares of the Company.

Save as described below, no financial assistance shall be provided at any time and in any manner by the Company or its subsidiaries to reduce or release the obligations of the said person(s) undertaking such obligations.

The following transactions are not prohibited:

- (A) the provision of financial assistance where the financial assistance is given in good faith in the interests of the Company and the principal purpose in giving that assistance is not for the acquisition of shares in the Company, or the assistance is but an incidental part of some larger purpose of the Company;
- (B) a distribution of the Company's assets by way of dividend in accordance with law;
- (C) the allotment of bonus shares as dividends;
- (D) a reduction of share capital, a repurchase of shares of the Company, a reorganisation of the capital structure of the Company effected in accordance with the Articles;
- (E) the lending of money by the Company in the ordinary course of its business where the lending of money is part of its scope of business, provided that the Company's net assets are not thereby reduced or, to the extent that those assets are thereby reduced, that financial assistance is provided out of distributable profits of the Company;

- (F) the provision of money by the Company for contributions to employees' shares schemes, provided that the Company's net assets are not thereby reduced or, to the extent that those assets are thereby reduced, that financial assistance is provided out of distributable profits of the Company.

For the purposes of the foregoing provisions:

- (A) "financial assistance" includes without limitation:

- (1) assistance given by way of gift;
- (2) assistance given by way of guarantee (including the provision of an undertaking or property to secure the performance of obligations by the obligor), or indemnity (other than an indemnity in respect of the Company's default), or by way of release or waiver;
- (3) assistance given by way of a loan or any other agreement under which the obligations of the Company are to be fulfilled before the obligations of another party to the agreement, or by way of the novation of, or the assignment of rights arising under, a loan or such other agreement; or
- (4) any other assistance given by the Company when the Company is unable to pay its debts or has no net assets or when its net assets would thereby be reduced by a material extent, and

- (B) "undertaking" includes the changing of one's financial position by making an agreement or arrangement (whether enforceable or not, and whether made on his own account or with any other person) or by any other means.

(vi) Disclosure of interests in contracts with the Company

Where a Director, Supervisor, general manager or other senior management officer of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company, other than his contract of service, he shall declare the nature and extent of his interests to the Board at the earliest opportunity, whether or not the aforesaid matters are under normal circumstances subject to the approval of the Board. Unless the interested Director, Supervisor, general manager or other senior management officer has disclosed his interest in accordance with the Articles and the contract, transaction or arrangement has been approved by the Board at a meeting in which such interested Director is not counted in the quorum and has refrained from voting, that contract,

transaction or arrangement is voidable at the instance of the Company except as against a bona fide party acting without notice of the breach of duty by the Director, Supervisor, general manager or other senior management officer concerned. For the purposes of the foregoing, a Director, Supervisor, general manager or senior management officer is deemed to be interested in a contract, transaction or arrangement in which a person connected with him is interested.

Where a Director, Supervisor, general manager or senior management officer gives to the Board a general notice in writing stating that, by reason of the facts specified in the notice, he is interested in contracts, transactions or arrangements of any description which may subsequently be made by the Company, that notice shall be deemed for the purposes of the Articles to be a sufficient declaration of his interests, so far as attributable to those facts, in relation to any contract, transaction or arrangement of that description which may subsequently be made by the Company, provided that such general notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration on behalf of the Company.

(vii) Remuneration

The emoluments of a Director shall be approved by shareholders in general meeting as referred to under the paragraph headed “Remuneration and payments for loss of office”.

(viii) Retirement, appointment and removal

The term of office of the Chairman and other Directors shall be three years commencing from the date of appointment or re-election, renewable upon re-election.

The Board shall consist of fourteen members, and shall have one Chairman and two independent Directors. The Chairman and Vice Chairman shall be elected and removed by a two-third majority of the Directors.

Directors shall be elected by shareholders in general meeting for a term of three years. Upon the expiry of the term, a director shall be eligible for re-election. No less than half of the members of the Board shall be external Directors (Directors who are not working in the Company).

External Directors shall have sufficient time and the necessary knowledge and ability in performing their duties. In performing his duties as an external Director, the Company shall provide all the necessary information.

A Director may concurrently assume the office of general manager or any other senior management position of the Company save and except the office of Supervisor. A Director is not required to hold any shares in the Company.

A Director may be removed prior to the expiration of his term of office with the sanction of an ordinary resolution of a general meeting. There is no stipulation that a Director must retire at a certain age.

In electing Directors at a shareholders' meeting of the Company, the cumulative vote method will be adopted such that in the election of two or more Directors, the number of votes held and can be cast by each shareholder shall be equivalent to the number of shares held by him multiplied by the number of Directors whom he is entitled to elect. Each shareholder is entitled to cast all his votes towards the election of one candidate, or to cast his votes to all the candidates whom he is entitled to elect, or to cast all his votes for two or more than two candidates. Candidates who have the most votes and they together fill all the vacant directorships shall be elected as Directors.

(ix) Borrowing powers

The Board has powers to formulate proposals for the issue of bonds of the Company.

There are no provisions in the Articles stipulating the manner of varying the borrowing powers exercisable by the Board. However, such powers, as with other provisions in the Articles, may be altered by way of special resolution of shareholders in general meeting.

(x) Notice and minutes of board meetings

Meetings of the Board shall be held at least twice every year and be convened by the chairman of the Board. Notice of such Board meetings shall be given to all the Directors ten days before the date of the proposed meeting. In case of emergency, an extraordinary meeting of the Board may be held upon request of either the general manager of the Company or two or more of the Directors.

Chairman of the Board may propose to convene extraordinary Board meetings as he deems necessary.

Notice of Board meetings (including extraordinary Board meetings) shall be given in a manner and within a time frame as follows:

- (i) Notice shall not be required for the convening of regular meetings of the Board where the time and place has been fixed by the Board in advance. If the time and place of the proposed Board meeting has not been fixed by the Board in advance, the chairman of the Board shall instruct the secretary of

the Board to, either by telex, telegram, facsimile, express special delivery, registered post or by hand, give at least 10 days prior notice of the time and place of that Board meeting to all the Directors.

- (ii) When holding an extraordinary meeting of the Board, the chairman shall authorize the secretary of the Board to, either by telex, telegram, facsimile or by hand give at least 2 days prior notice of the time, place and manner of that extraordinary meeting of the Board to all the Directors.
- (iii) Regular or extraordinary Board meetings may be conducted by telephone or other means of communications, provided that all the participating Directors can hear and speak to each other, and in such cases, all participating Directors shall be deemed to have attended the meeting in person, save and except certain matters set out in the Articles of Association.

Board meetings shall be held only if more than one-half of the Directors are present.

Each Director shall have one vote. Resolutions of the Board require the approval of one half or more of all the Directors.

Where the numbers of votes voting for and against a resolution are equal, the chairman of the Board shall have a casting vote.

(xi) Duties

Each Director, Supervisor, general manager or other senior management officer owes a duty, in the exercise of his powers and the discharge of his duties, to exercise the care, diligence and skill that a reasonable prudent person would exercise in comparable circumstances.

In addition to the obligations imposed by laws, administrative regulations or required by the stock exchanges on which shares of the Company are listed, each Director, Supervisor, general manager and other senior management officer owes a duty to each shareholder, in the exercise of the powers of the Company entrusted to him:

- (A) not to cause the Company to exceed the scope of business stipulated in its business licence;
- (B) to act honestly in what he considers to be in the best interests of the Company;
- (C) not to expropriate in any guise the Company's property, including without limitation, opportunities beneficial to the Company; and

- (D) not to expropriate the individual rights of shareholders, including, without limitation, rights to distribution and voting rights, save and except pursuant to a reorganisation of the Company submitted to shareholders for approval in accordance with the Articles.

Each Director, Supervisor, general manager or other senior management officer owes a duty, in the exercise of powers of the Company entrusted to him, to observe his fiduciary obligations and not to place himself in a position where his duties and his interests may conflict. This principle applies to, without limitation, the following obligations:

- (A) to act honestly in what he considers to be in the best interests of the Company;
- (B) to exercise the powers within his authority without abuse;
- (C) to personally exercise the discretion vested in him and not allow himself to act under the direction of another and, unless and to the extent permitted by law or administrative regulations or with the informed consent of shareholders in general meeting, not to delegate the exercise of his discretion;
- (D) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- (E) except in accordance with the Articles or otherwise permitted by informed shareholders in general meeting, not to enter into any contract, transaction or arrangement with the Company;
- (F) unless otherwise permitted by informed shareholders in general meeting, not to use the Company's property for his own benefit;
- (G) not to obtain bribe or other illegal income by using his authority or to expropriate in any manner the Company's property, including, without limitation, not to usurp any opportunities beneficial to the Company;
- (H) unless otherwise permitted by informed shareholders in general meeting, not to accept commissions in connection with the Company's transactions;
- (I) to abide by the Articles, faithfully execute his official duties and protect the Company's interests, and not to exploit his position and power in the Company to advance his own private interests;

- (J) unless otherwise permitted by informed shareholders in general meeting, not to compete in any form with the Company;
- (K) not to embezzle the Company's funds or lend them to others, and not to deposit the Company's funds in accounts opened in his own name or in the name of other persons and not to use the Company's assets to provide security for the debts of the Company's shareholders or other individuals; and
- (L) unless otherwise permitted by informed shareholders in general meeting, not to disclose confidential information of the Company acquired by him in the course of and during his tenure and not to use such information other than in furtherance of the interests of the Company, save and except that disclosure of such information to the court or other governmental authorities is permitted if (i) the disclosure is required by law; (ii) it is in the public interest; or (iii) such disclosure is necessary to protect the interests of that Director, Supervisor, general manager or senior management officer.

In accordance with his fiduciary obligations, a Director, Supervisor, general manager or other senior management officer shall not cause a person connected with him to do what he is prohibited from doing. A person is connected with a Director, Supervisor, general manager or other senior management officer if he is:

- (A) the spouse or minor child of that Director, Supervisor, general manager or other senior management officer;
- (B) a person acting in the capacity of trustee of a Director, Supervisor, general manager, other senior management officer or any person referred to in (A) above;
- (C) a person who is a partner of a Director, Supervisor, general manager, other senior management officer or any person referred to in (A) or (B) above;
- (D) a company in which a Director, Supervisor, general manager or other senior management officer, alone or jointly with one or more persons referred to in (A), (B) and (C) above or other Director, Supervisor, general manager or other senior management officer, has de facto control; or
- (E) a director, supervisor, general manager or other senior management officer of a company referred to in (D) above.

The fiduciary duties of a Director, Supervisor, general manager or other senior management officer under the Articles do not necessarily cease with the termination of his term of office.

Their duty of confidence in relation to trade secrets of the Company survives the termination of their term of office. Other duties may continue for such period as fairness may require depending on the time lapse between such termination and the act concerned and the circumstances and the terms under which the relationship with the Company was terminated.

Subject to the provisions with regard to the duties of controlling shareholders defined in paragraph (r) below towards other shareholders as set out in the Articles, a Director, Supervisor, general manager or other senior management officer may be relieved of liability for specific breaches of his duty by the informed consent of shareholders in general meeting.

(b) Alterations to constitutional documents

The Company may amend the Articles in accordance with the following procedures:

- (i) the Board needs to adopt a proposal to amend the Articles in accordance with the Articles;
- (ii) shareholders shall be informed of the proposal for amendments and a meeting of shareholders shall be convened to vote on the amendments;
- (iii) the amendments shall require the sanction by a special resolution of shareholders in general meeting; and
- (iv) any amendments to the Articles involving the contents of the Mandatory Provisions shall be effective only after being approved by the relevant departments of the State Council. With respect to matters involving registration, any change of registration shall be effected according to law.

(c) Variation of rights of existing shares or classes of shares

Rights conferred on any class of shareholders in the capacity of shareholders (“class rights”) may not be varied or abrogated unless approved by way of special resolution of shareholders in general meeting and by holders of shares of that class at a separate meeting conducted in accordance with the Articles. The following circumstances shall be deemed to be a variation or abrogation of the class rights of a class:

- (i) the increase or decrease in the number of shares of such class, or an increase or decrease in the number of shares of a class having voting or distribution rights or other privileges equal or superior to the shares of such class;

- (ii) the exchange of all or part of the shares of such class or the exchange or the grant of a right of exchange of all or part of the shares of another class into the shares of such class;
- (iii) the removal or reduction of rights to accrued dividends or rights to cumulative dividends of such class;
- (iv) the reduction or removal of any preference to dividends or any preference to a distribution of assets upon the Company's liquidation;
- (v) the addition, removal or reduction of the right of such class in relation to conversion into shares, option, voting power, transfer or pre-emptive rights to acquire securities of the Company;
- (vi) the removal or reduction of rights of such class to receive payment in particular currencies from the Company;
- (vii) the creation of a new class of shares having voting or distribution rights or other privileges equal or superior to the shares of such class;
- (viii) the imposition of restrictions on the transfer or ownership of the shares of such class or the addition of such restrictions;
- (ix) the allotment and issue of rights to subscribe for, or convert into, shares in the Company of such class or another class;
- (x) the increase of the rights or privileges of another class;
- (xi) the reorganisation of the Company which will result in different classes of shareholders bearing disproportionate burdens in such proposed reorganisation; and
- (xii) the variation or abrogation of provision in this part of the Articles.

(d) Ordinary and special resolutions – majority required

Resolutions of general meetings of shareholders shall be divided into ordinary resolutions and special resolutions.

An ordinary resolution shall be passed by more than one half of the votes represented by the shareholders (including proxies) present at the meeting in favour of the resolution. A special resolution shall be passed by more than two thirds of the votes represented by the shareholders (including proxies) present at the general meeting exercised in favour of the resolution.

(e) Voting rights (generally, on a poll and right to demand a poll)

Holders of Domestic Shares, Promoter Foreign Shares and H Shares present at a general meeting have one vote for each share they hold.

At any meeting of shareholders a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

- (i) by the chairman of the meeting;
- (ii) by at least two shareholders having the right to vote either present in person or by proxy; or
- (iii) by one or more shareholders present in person or by proxy and representing not less than one-tenth of all shares carrying the right to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman as to the passing of the resolution based on the results of a show of hands and an entry to that effect in the minutes of the Company, shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

The demand for a poll may be withdrawn by the person who made the demand. A poll demanded on the election of the chairman of the meeting, or on a question of adjournment, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any business other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded.

On a poll taken at a meeting, a shareholder entitled to two or more votes need not cast all his votes in the same way.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to one extra vote.

(f) Requirements for general meetings

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meetings shall be convened by the Board. Annual general meetings are held once every year within six months after the last financial year end.

Under any of the following circumstances, the Board shall convene an extraordinary general meeting within two months of the occurrence of the following events:

- (i) when the number of directors falls below the number required by the Company Law or two thirds of the number required by the Articles of Association;
- (ii) when the losses of the Company which have not been made good amount to one third of the total issued share capital of the Company;
- (iii) upon requisition of shareholders holding 10% or more of the Company's issued and outstanding shares carrying voting rights for the convening of an extraordinary general meeting;
- (iv) when the Board deems necessary or the supervisory committee of the Company proposes to convene the same; or
- (v) when two (or more) independent Directors propose to convene the same.

(g) Accounts and audit

The Company shall formulate its own financial and accounting system in accordance with the relevant requirements of PRC laws, administrative regulations and the PRC accounting standards formulated by the department in charge of finance under the State Council.

The Board of the Company shall place before the shareholders at every annual general meeting such financial reports as are required by any laws, administrative regulations or directives promulgated by competent local government and the authority-in-charge to be prepared by the Company.

The financial reports of the Company shall be deposited at the Company for inspection by its shareholders not later than 20 days before the annual general meeting.

Each shareholder of the Company shall be entitled to receive a copy of the financial statements referred to in the Articles. The Company shall send by prepaid mail 21 days before the annual general meeting the above reports to each holder of overseas listed foreign shares. The service address shall be the address in the register of shareholders of the Company.

The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards, or those of the place where the Company's H Shares are listed. If there is any material difference between the financial statements prepared in

accordance with the respective sets of accounting standards, such difference shall be stated in the notes to the financial statements. When the Company is to distribute its after-tax profits, the lower of the after-tax profits as shown in the two financial statements shall be adopted.

Any interim results or financial information published or disclosed by the Company shall be prepared in accordance with international accounting standards or those of the place where the Company's H Shares are listed, and with the PRC accounting standards and regulations.

The Company shall publish its financial reports twice every financial year; interim reports shall be published within 60 days after the end of the first six months of each financial year and annual reports shall be published within 120 days after the end of the financial year.

The appointment, dismissal or termination of the office of the auditors shall be determined at shareholders' general meetings and reported to the relevant State Council securities regulatory authorities for record.

Shareholders in general meeting may by ordinary resolution remove the Company's auditors before their term of office expires, irrespective of any provisions contained in the contract entered into between the Company and the auditors. Any right of the auditors to claim against the Company in connection with their removal shall not be affected by such removal.

In the event of the dismissal or termination of the services of the auditors, such auditors who are to be dismissed or whose services are to be terminated shall be given notice in advance. Such auditors shall have the right to present their views at the following shareholders' general meetings:

- (i) the shareholders' general meeting at which their term of office would otherwise have expired;
- (ii) any shareholders' general meeting at which it is proposed to fill the casual vacancy caused by their removal; or
- (iii) any shareholders' general meeting convened on their resignation.

(h) Notice of meetings and business to be conducted thereat

The shareholders' general meeting is the organ of authority of the Company and shall exercise its functions according to law.

Notice of meetings of shareholders shall be given 45 days before the meeting. A notice of meeting of shareholders shall:

- (i) be in writing;
- (ii) specify the place, the date and the time of the meeting;
- (iii) state the general nature of the business to be transacted at the meeting;
- (iv) provide such information and explanation as are necessary for the shareholders to exercise an informed judgment on the proposals before them. Without limiting the generality of the foregoing, where a proposal is made to amalgamate the Company with another, to repurchase shares of the Company, to reorganise the share capital, or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the cause and effect of such proposal must be properly explained;
- (v) contain a disclosure of the nature and extent, if any, of material interests of any Director, Supervisor, general manager or other senior management officer in the transaction proposed and the effect of the proposed transaction on such Director, Supervisor, general manager or other senior management officer in his capacity as shareholder in so far as it is different from the effect on the interests of other shareholders of the same class;
- (vi) contain the full text of any special resolution proposed to be moved at the meeting;
- (vii) contain conspicuously a statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not also be a shareholder; and
- (viii) specify the time and place for lodging proxy forms for the relevant meeting. In respect of holders of H Shares, notice of general meetings of shareholders shall be served on each shareholder, whether or not entitled to vote thereat, by hand or prepaid mail to the address of any such shareholder as appearing on the register of holders of H Shares.

In respect of holders of Domestic Shares, notice of general meetings of shareholders can be published on any one day within the period of 45 of 50 days prior to the meeting in one or more publications specified by the State Council securities regulatory authority. Once published, all holders of Domestic Shares shall be deemed to have received the notice of the relevant general meeting.

The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate that meeting or any resolutions passed thereat.

The following matters shall be resolved by an ordinary resolution at a shareholders' general meeting:

- (i) work reports of the Board and the supervisory committee;
- (ii) plans formulated by the Board for the distribution of profits and for making up losses;
- (iii) appointment and removal of the members of the Board and members of the supervisory committee, their remuneration and method of payment;
- (iv) annual preliminary and final budgets, balance sheets and income statements and other financial statements of the Company; and
- (v) matters other than those required by the laws and administrative regulations or by the Articles of Association to be adopted by special resolution.

The following matters shall be resolved by a special resolution at a shareholders' general meeting:

- (i) the increase or decrease of share capital of the Company and the Company's issue of shares of any class, warrants and other similar securities;
- (ii) the issue of debentures of the Company;
- (iii) the division, merger, dissolution and liquidation of the Company;
- (iv) amendments to the Articles of Association; and
- (v) any other matters considered by the shareholders' general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on the Company and should be adopted by a special resolution.

(i) Transfer of shares

All fully paid H shares listed in Hong Kong are freely transferable pursuant to the Articles.

The Board may refuse to recognise any instrument of transfer without giving any reason unless such transfer is carried out in compliance with the following conditions:

- (i) payment of HK\$2.50 or any higher fee as agreed by the Stock Exchange has been made to the Company for the purpose of registering the instrument of transfer and other documents relating to or which may affect the title to the shares;
- (ii) the instrument of transfer only involves the H Shares listed in Hong Kong;
- (iii) the stamp duty payable on the instrument of transfer has been paid;
- (iv) relevant share certificate and evidence that the transferor has the right to transfer such shares as reasonably required by the Board have been provided;
- (v) if the shares are to be transferred to joint holders, the number of joint holders shall not exceed 4; and
- (vi) the Company has no lien over the relevant shares.

The overseas listed foreign shares of the Company shall be transferred in an ordinary or regular way or a way acceptable to the Board; such instrument of transfer may be executed by way of affixing of seal in mode of printing. All instruments of transfer shall be placed at the legal address of the Company or any such place designated by the Board from time to time.

(j) Register of shareholders

The Company shall keep a register of shareholders and enter therein the following particulars:

- (i) the name, address, occupation (or description of nature) of shareholders, the class and the number of each class of shares held, the amount paid or agreed to be paid on the shares and, the serial number of the share certificates held by each shareholder;
- (ii) the date on which each person was entered in the register as a shareholder; and
- (iii) the date on which any person ceased to be a shareholder.

The Company shall have a complete register of shareholders which shall be comprised of the following parts:

- (i) a part maintained at the Company's legal address in relation to shares not required to be registered in the parts of the register referred to in (ii) and (iii) below;
- (ii) a part maintained in the place where the stock exchange on which the Company's overseas listed securities are listed is located; and
- (iii) any part in such other places as the Board may deem necessary for listing purposes.

The Company may appoint overseas agents to manage the register of shareholders outside the PRC. A duplicate of parts of the register of shareholders maintained pursuant to (ii) and (iii) above shall be maintained at the Company's legal address. The appointed overseas agents shall ensure that the original of any overseas part of the register of shareholders is consistent with the duplicate thereof. In the event of discrepancy, the information recorded in the original part shall prevail. Different parts of the register of shareholders shall not overlap. No transfer of any shares registered in any part of the register shall, during the continuance of that registration, be registered in any other part of the register of shareholders. The alteration and rectification of each part of the register of shareholders shall be made in accordance with the laws of its situs. The register of shareholders shall be conclusive evidence, in the absence of evidence to the contrary, of a shareholding in the Company.

(k) Power of the Company to purchase its own shares and reduce its share capital

Subject to governmental approvals, the Company may, subject to the provisions set out in the Articles, repurchase its own shares. A share repurchase may only be made:

- (i) under a general offer to all shareholders in proportion to their respective holdings;
- (ii) on a stock exchange; or
- (iii) by an off-market contract.

The Company may, with the prior sanction of shareholders obtained in accordance with the Articles, repurchase its shares by an off-market contract, but the Company may release or modify its rights under a contract so entered into by the Company with the prior approval of shareholders obtained in the same manner. A contract to repurchase shares includes but is not limited to an agreement to become obliged to repurchase or to acquire rights to repurchase shares of the Company. The Company shall not assign its rights under a contract to repurchase its own shares.

Unless the Company has commenced liquidation:

- (i) where the Company repurchases its own shares at nominal value, payment may be made out of distributable profits in the books of the Company and/or out of the proceeds of a fresh issue of shares made for that purpose;
- (ii) where the Company repurchases its own shares at a premium, payment of the portion equivalent to the nominal value may be made out of the distributable profits in the books of the Company and/or out of the proceeds of a fresh issue of shares made for that purpose. Payment of the portion in excess of the nominal value shall be effected as follows:
 - (A) if the shares being repurchased were issued at nominal value, payment shall be made out of distributable profits in the books of the Company;
 - (B) if the shares being repurchased were issued at a premium, payment shall be made out of distributable profits in the books of the Company and/or out of proceeds of a fresh issue of shares made for that purpose, provided that the amount paid out of the proceeds of the fresh issue may not exceed (1) the aggregate of premiums received by the Company on the issue of the shares repurchased, or (2) the amount of the Company's share premium account (or capital reserve fund account) at the time of such repurchase including the premiums on the fresh issue of shares;

Payment by the Company in consideration for:

- (A) the acquisition of the right to repurchase shares of the Company;
- (B) the variation of any contract to repurchase shares of the Company; or
- (C) the release of any of the Company's obligations under any contract to repurchase shares of the Company,

shall be made out of the Company's distributable profits.

Shares repurchased by the Company shall be cancelled and the amount of the Company's registered capital shall be reduced by the par value of those shares accordingly. The amount which has been deducted from the distributable profits and which has been used for repurchasing the nominal value of the shares shall be credited to the share premium account (or capital reserve fund account).

Upon the reduction of registered capital, the Company shall prepare a balance sheet and a list of its assets. The Company shall notify its creditors within 10 days from the date of passing of the resolution for the reduction of registered capital and shall publish the notice at least three times in a newspaper within 30 days thereof.

Creditors who receive this notice shall have the right within 30 days from the date of receiving the notice, and the creditors who have not received the notice shall have the right within 90 days from the date of the notice was first published in the newspaper, to require the Company to settle the debt or to provide the corresponding security in respect of the debt.

The registered capital shall not be less than the minimum statutory requirement after the reduction of capital.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Unless otherwise resolved at a shareholders' general meeting, the Board as authorised by shareholders in general meeting has the authority to distribute interim or special dividend.

The Company may distribute dividends by way of cash dividends and/or bonus shares. Cash dividends and other distributions payable on Domestic Shares shall be paid in Renminbi. Cash dividends and other distributions payable in respect of H Shares shall be declared in Renminbi and payable in Hong Kong dollars in accordance with relevant provisions of foreign exchange control of the PRC.

When distributing dividends, the Company shall make such withholdings for income tax from dividends payable to shareholders as may be required in accordance with PRC tax law.

The Company shall appoint a receiving agent to receive on behalf of holders of H Shares dividends declared and all other monies owing by the Company in respect of H Shares. Such receiving agent shall be registered as a trust company under the Trustee Ordinance of Hong Kong.

(n) Proxies

Any shareholder entitled to attend and vote at a shareholders' meeting of the Company shall be entitled to appoint one or more persons (whether a shareholder or not) as his proxies to attend and vote instead of him, and a proxy so appointed shall:

- (i) have the same rights as the shareholder to speak at the meeting;
- (ii) have authority to demand or join in demanding a poll; and
- (iii) have the right to vote on a show of hands or on a poll, but a proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing, or if the appointor is a company either under seal or under the hand of a director or attorney duly authorised, or if the appointor is a recognized clearing house, the instrument shall be under its legal person seal or under the hand of its directors or other staff internally granted the relevant authority or under the hand of a person or attorney duly authorized. The instrument appointing a proxy and, if such instrument is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, shall be deposited at the legal address of the Company or at such other place specified in the notice convening the meeting, not less than 24 hours before the time for holding the relevant meeting at which the proxy proposes to vote or the time appointed for the taking of the poll.

Any form issued to a shareholder by the Board for use by him for appointing a proxy to attend and vote at a meeting of the Company shall be such as to enable the shareholder, according to his intention, to instruct the proxy to vote in favour of or against each resolution dealing with the business to be transacted at the meeting. Such a form shall contain a statement that, in the absence of such instructions, the proxy may vote as he thinks fit. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given, provided that no notice in writing of such death, loss of capacity, revocation or transfer as aforesaid shall have been received by the Company before the commencement of the relevant meeting at which the proxy is used.

(o) Calls on shares and forfeiture of shares

There are no provisions in the Articles relating to making of call on or forfeiture of shares.

(p) Inspection of register of shareholders and shareholders' other rights

The ordinary shareholders of the Company shall enjoy the following rights:

- (i) to receive dividends and other distributions in proportion to the number of shares held;
- (ii) to attend or appoint a proxy to attend on his behalf shareholders' general meetings and to vote thereat;
- (iii) to supervise the business operations and activities of the Company and to give advice or raise questions;
- (iv) to transfer his shares according to applicable laws, administrative regulations and the provisions of the Articles;
- (v) to obtain the following information in accordance with the Articles:
 - (i) the right to obtain a copy of the Articles after payment of a fee representing the Company's costs;
 - (ii) the right to inspect and obtain copy after payment of reasonable charges:
 - (A) all parts of the register of shareholders;
 - (B) particulars of each of the Directors, Supervisors, general manager and other senior management officers as follows:
 - (1) his present name and any former name or alias;
 - (2) his principal residential address;
 - (3) his nationality;
 - (4) his primary and all other business occupations; and
 - (5) his identification document and its number;
 - (C) the status of the Company's share capital;

- (D) reports showing the aggregate number and par value of each class of the shares repurchased by the Company since the end of the last financial year, the aggregate amount paid by the Company in connection with such repurchase and the maximum and minimum prices paid; and
- (E) minutes of shareholders' meetings.
- (vi) to participate in the event of the termination or liquidation of the Company, in the distribution of surplus assets of the Company in proportion to the number of shares held;
- (vii) other rights conferred by the Articles and the relevant laws and regulations.

(q) Quorum for shareholder's meetings and class meetings

A shareholder proposing to attend a shareholder's general meeting shall deposit a written reply confirming his attendance 20 days prior to the holding of the meeting. The Company shall, according to the written replies received 20 days prior to the holding of a shareholders' general meeting, calculate the number of shares carrying the right to vote represented by the shareholders proposing to attend the meeting. If the number of shares carrying the right to vote represented by the shareholders proposing to attend the meeting reaches half of the total number of shares of the Company carrying the right to vote, then the Company may hold the shareholders' general meeting; if that number is not reached, the Company shall within five days notify the shareholders again of the matters proposed to be considered at the meeting, the date and the place of the meeting by way of public announcement. After such public announcement, the company may hold the shareholder's general meeting.

The above procedure applies mutatis mutandis to shareholders of the relevant class of shares in respect of class meetings.

(r) Rights of minority shareholders in relation to fraud or oppression

In addition to obligations imposed by laws, administrative regulations or required by the stock exchange(s) on which the Shares are listed, a controlling shareholder (defined below) shall not exercise his voting rights in a manner prejudicial to the interests of all or some of the shareholders of the Company in respect of the following matters:

- (i) in relieving a Director or Supervisor of his duty, to act honestly in the best interests of the Company;
- (ii) permitting a Director or Supervisor (for his own benefit or for the benefit of another person) to deprive the Company's assets in whatever manner, including without limitation, opportunities beneficial to the Company; or

- (iii) permitting a Director or Supervisor (for his own benefit or for the benefit of another person) to deprive the individual rights or interest of other shareholders, including without limitation, rights to distributions and voting rights save and except pursuant to a reorganisation of the Company submitted to the shareholders for approval in accordance with the Articles.

For these purposes, a “controlling shareholder” means a person who satisfies any one of the following conditions:

- (i) he alone or acting in concert with others has the power to elect more than half of the Directors;
- (ii) he alone or acting in concert with others has the power to exercise or to control the exercise of 30% or more of the voting rights in the Company;
- (iii) he alone or acting in concert with others holds 30% or more of the issued shares;
or
- (iv) he alone or acting in concert with others in any other manner is in de facto control of the Company.

(s) Shareholders’ rights relating to, and procedures on, liquidation

Shareholders have the right to participate in the distribution of the surplus assets of the Company in proportion to the number of shares held by them in the event of a liquidation of the Company.

The Company shall be dissolved and liquidated upon the occurrence of any of the following events:

- (i) where the shareholders’ general meeting resolves that the Company should be dissolved;
- (ii) where dissolution is necessary as a result of the merger or division of the Company;
- (iii) where the Company is adjudged insolvent according to law because it is unable to pay its debts as they fall due;
- (iv) when the Company is ordered to be closed down by reason of its violation of laws or administrative regulations.

Where the Board decides to liquidate the Company otherwise than because of a declaration of insolvency, the Board shall, in the notice convening the general meeting of shareholders for this purpose, include a statement to the effect that, after having made full inquiry into the affairs of the Company, the Board is of the opinion that the Company will be able to pay its debts in full within 12 months from the commencement of the liquidation.

In the event the Company shall be dissolved under the provisions of (i) above, it shall set up within 15 days thereof a liquidation team, the members of which shall be determined by an ordinary resolution passed in the general meeting.

In the event the Company shall be dissolved under the provisions of (iii) above, the People’s Court shall form a liquidation team comprising the shareholders, relevant authorities and relevant professionals in accordance with law to proceed with the liquidation thereof.

In the event the Company shall be dissolved under (iv) above, the relevant competent authorities shall form a liquidation team comprising the shareholders, relevant authorities and relevant professionals in accordance with law to proceed with the liquidation thereof.

Upon the passing of the relevant resolution to liquidate the Company, all powers of Directors shall cease.

The liquidation team shall:

- (i) not less than once each year report to the shareholders on the team’s revenue and expenses, the business of the Company and the progress of liquidation;
 - (ii) present a final report to the shareholders’ general meeting on completion of the liquidation; and
 - (iii) comply with the instructions from shareholders in general meeting.
- (t) **Other provisions material to the Company or its shareholders**
- (i) *Scope of Business*

The major scope of the Company’s operations include the design, development, production, sale, maintenance and import and export of diesel engines and related products.

(ii) Effect of the Articles

The Articles become effective upon approval and registration by the relevant governmental authorities. From the date when the Articles take effect, the Articles constitute a legally binding document regulating the relationship between the Company and each shareholder and among the shareholders. A shareholder may bring an action against the Company and vice versa and against each other or against the Directors, Supervisors, general manager or other senior management officers in respect of rights and obligations concerning the affairs of the Company arising out of the Articles. For these purposes, actions include court proceedings and arbitration proceedings.

(iii) Legal form of the Company

- (A) The Company is a joint stock limited company. It is an independent legal entity, governed and protected by laws, regulations and other governmental provisions of the PRC.

The Company has perpetual existence unless and until terminated and liquidated in accordance with the Articles.

The Company may invest in other limited liability companies and joint stock limited companies, and shall be liable to the investee companies to the extent of the relevant capital contribution. The Company shall not become a shareholder with unlimited liability of any other economic bodies.

- (B) Shares and transfers

Upon approval by the State Council securities regulatory authority, the Company may issue shares to domestic investors and foreign investors.

For the purpose of the foregoing paragraph, “foreign investors” refer to investors outside the PRC and investors from Hong Kong, Macau and Taiwan who subscribe for the shares issued by the Company; and “domestic investors” refer to investors within the PRC other than investors from the territories referred to above who subscribe for the shares issued by the Company. Foreign shares are subscribed by foreign investors (including investors from the regions of Hong Kong, Macau and Taiwan) in foreign currencies or otherwise permitted under PRC laws. Domestic shares are subscribed for in Renminbi by investors within the PRC other than investors from the territories referred to above.

Foreign shares listed overseas are known as overseas listed foreign shares (including, but not limited to H shares). H Shares are foreign shares listed on the Stock Exchange, which are subscribed for in Hong Kong dollars.

Save as otherwise provided in the Articles, holders of domestic shares and holders of foreign shares shall enjoy the same rights and assume the same obligations. The rights and obligations in respect of the Company enjoyed and assumed by shareholders shall be limited to the extent of the number of shares held by them. The Company shall be liable to its creditors to the extent of all of its assets.

The total amount of shares to be issued by the Company under the Articles as currently constituted shall be not less than 315,000,000 shares and shall not exceed 330,000,000 shares including (i) 215,000,000 promoter shares already in issue at the time of establishment of the Company; and (ii) not less than 100,000,000 overseas listed foreign shares and not more than 115,000,000 overseas listed foreign shares.

The Company may, based on its business development requirements and in accordance with the Articles, increase its total registered capital. The increase in registered capital may be effected by the following methods:

- (1) by an issue of new shares to unspecified investors;
- (2) by a placing of new shares to the existing shareholders;
- (3) by a bonus issue of shares to the existing shareholders; and
- (4) by any other method authorised by law and/or administrative regulations of the PRC.

Any increase of the capital of the Company shall be effected in accordance with the Articles and the procedures required by laws and administrative regulations of PRC.

(iv) Legal notices

Notices for shareholders' meetings to be given by the Company to holders of H shares must be served on holders of H Shares by hand to, or by post addressed to each holder of H Shares at, the address shown in the register of shareholders. Notices for shareholders' meetings to be given by the Company to holders of promoter shares may also be published in or one or more publications specified by PRC securities regulatory authority; once published, all holders of promoter shares shall be deemed to have received such notice.

(v) *Shareholders' obligations*

Ordinary shareholders of the Company shall assume the following obligations:

- (A) to abide by the Articles;
- (B) to pay subscription monies according to the number of shares subscribed and the method of subscription; and
- (C) other obligations imposed by the Articles and relevant laws and administrative regulations.

(vi) *Company secretary*

The Company shall have one secretary of the Board. The secretary of the Board is a senior management officer of the Company.

The secretary shall be a natural person having the requisite professional knowledge and experience and appointed by the Board.

The secretary shall be mainly responsible for ensuring that the constitutional documents and records of the Company are in order, that the necessary reports and documents are prepared and submitted to relevant PRC authorities in accordance with law, that the register of shareholders of the Company is properly maintained and that persons entitled to have access to records and documents of the Company are furnished with such records and documents without delay.

(vii) *Supervisory committee*

The Company shall have a supervisory committee. The supervisory committee is the Company's standing internal supervisory organ. The supervisory committee shall comprise of three members, each a Supervisor.

Two members of the supervisory committee shall be the representatives of shareholders and the remaining one Supervisor shall be the representative of the staff and workers of the Company. The representatives of the shareholders shall be elected and removed by the shareholders' general meeting; the representative of the staff and workers shall be elected and removed through democratic election by the staff and workers of the Company. External Supervisors (being Supervisors who are not working in the Company) shall comprise no less than half of the members of the supervisory committee.

The supervisory committee is accountable and reports to shareholders in general meeting and shall exercise the following powers:

- (1) to examine the Company's financial affairs;
- (2) to supervise the Directors, general manager and other senior management officers to see whether they violate any laws, administrative regulations or the Articles in performing their duties;
- (3) to require the Directors, general manager and other senior management officers to rectify their acts which are harmful to the Company;
- (4) to verify the financial reports, business reports and profit distribution plans proposed to be tabled at a shareholders' general meeting and to appoint, in the name of the Company, a registered accountant to assist in reviewing them should any queries arise;
- (5) to propose to convene extraordinary general meetings of shareholders;
- (6) to represent the Company in negotiating with any Director or in initiating legal proceeding against any Director;
- (7) to present its views to the accounting firm of the Company, and where necessary, separately appoint another accounting firm in the name of the Company to audit the accounts of the Company, and may directly report to the securities supervisory and regulatory body of the State Council and to other relevant departments; and
- (8) other powers as stipulated in the Articles.

Supervisors are entitled to attend and observe Board meetings. The chairman of the supervisory committee may be elected or removed with two-third majority of the Supervisors, and has a term of three years, renewable upon expiry. Resolutions of the supervisory committee shall be passed by two-third majority of the Supervisors.

(viii) Dispute resolution

Whenever any disputes or claims arise in relation to the Articles, the PRC Company Law or any rights or obligations conferred by any laws or administrative regulations concerning the affairs of the Company between the parties set out below, such disputes or claims shall, unless otherwise provided in the Articles, be referred to arbitration to either the CIETAC in accordance with its rules or to HKIAC in accordance with its securities arbitration rules, at the election of the claimant. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration shall be final and conclusive.

The above provisions apply to disputes or claims between the following parties:

- (A) a holder of overseas listed foreign shares and the Company;
- (B) a holder of overseas listed foreign shares and a Director, Supervisor, general manager or other senior management officer of the Company; and
- (C) a holder of overseas listed foreign shares and a holder of domestic shares.

Where a dispute or claim involves the above parties, the entire claim or dispute must be referred to arbitration and all persons (being shareholders, Directors, Supervisors, general manager or other senior management officers of the Company or the Company), who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall submit to arbitration.

Unless otherwise provided in laws and administrative regulations, any of the above disputes or claims between the above mentioned parties shall be resolved in accordance with the laws of the PRC.

Zhong Lun Law Firm, the Company's legal advisers on PRC law, has sent to the Company a letter confirming that, inter alia, they have reviewed the above summary of the Articles and that in their opinion, such summary is a correct summary of the Company's Articles.

4. PRC LEGAL MATTERS

Zhong Lun Law Firm, the Company's legal adviser on PRC law, has sent to the Company a letter confirming that they have reviewed the summary of relevant laws and regulations contained in this appendix and that in their opinion, the summary is a correct summary of the relevant PRC laws and regulations. A copy of this letter is available for inspection as referred to in the paragraph headed "Documents available for inspection" in appendix VI in this Prospectus.

Any person wishing to have detailed advice on PRC law is recommended to seek independent legal advice.

5. THE LEGAL STATUS OF PROMOTER FOREIGN SHARES

The sub-paragraph below of this paragraph 5 sets out the legal advice of Zhong Lun Law Firm, the Company's legal adviser on PRC Law, on the rights attached to Promoter Foreign Shares.

At present, there are no PRC laws and regulations governing the definition and legal status of the Promoter Foreign Shares. Until new laws or regulations are introduced in this respect, holders of Promoter Foreign Shares will be treated as if they are in the same class as the holders of Domestic Shares (in particular, in respect of the rights to receive notice of general meetings and class meetings and to attend and vote at such meetings), except that holders of Promoter Foreign Shares enjoy the following additional rights:

- (a) to receive dividends declared by the Company in foreign currencies;
- (b) in the event of the winding up of the Company, to remit their respective shares in the remaining assets (if any) of the Company in foreign currencies out of the PRC in accordance with the applicable foreign exchange laws and regulations in the PRC.

Pursuant to the Company Law, Promoter Shares of a joint stock limited company are not transferable within three years from the date of its establishment. Subject to the occurrence of certain matters, and the approval of shareholders of the Company in general meeting and in class meetings, the Company may seek the approval from the CSRC and the Stock Exchange for the conversion of Promoter Foreign Shares into H Shares and the listing of such newly converted H Shares on the Stock Exchange, although such approval may not be granted.

1. FURTHER INFORMATION ABOUT THE COMPANY**A. Incorporation**

The Company was established as a joint stock limited company in the PRC under the Company Law on 23 December, 2002.

The Company has established a place of business in Hong Kong at Room 2409, Wing On Centre, 111 Connaught Road Central, Hong Kong and is registered as an overseas company under Part XI of the Companies Ordinance. Zhang Yuanfu of Flat B, 13th Floor, Hoi Hing Building, Mercury Street, North Point, Hong Kong has been appointed as the Company's agent for the acceptance of service of process in Hong Kong. As the Company is established in the PRC, its corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant laws and regulations of the PRC and of the Articles of Association is set out in appendix IV to this Prospectus.

B. Changes in registered capital

At the time of its establishment, the Company's initial registered capital was RMB215,000,000, divided into 215,000,000 ordinary shares of par value RMB1.00 each. Of such ordinary shares, 134,450,000 were State-owned Domestic Shares, 46,300,000 were non-State-owned Domestic Shares and 34,250,000 were Foreign Shares, and they represented approximately 62.53%, 21.53% and 15.93%, respectively of the then issued capital of the Company.

Upon completion of the Offering and assuming that the Over-allotment Option is not exercised, the issued share capital of the Company will be RMB315,000,000, comprising 205,000,000 Promotor Shares (including 124,450,000 State-owned Domestic Shares) and 110,000,000 H Shares (including 10,000,000 Shares to be disposed of by certain holders of the State-owned Domestic Shares in the Offering), representing approximately 65.08% and approximately 34.92% of the issued share capital of the Company, respectively.

Save as aforesaid, there has been no alteration in the share capital of the Company since its establishment.

C. Procedures at the Company's shareholders' meetings in relation to the Listing

On 30 June, 2003 and 20 October, 2003, meetings of the shareholders of the Company were held at Weifang, the PRC, during which, among others, the following matters concerning the Listing were approved:

- (a) conditional upon, among others, (i) the CSRC granting the relevant approval for the issue of overseas listed foreign shares and the listing thereof on the Stock Exchange, (ii) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in the H Shares to be issued as mentioned herein; and (iii) the relevant underwriting agreement(s) becoming unconditional and not being terminated in accordance with its/their terms or otherwise, the issue of H Shares by the Company under the Offering and pursuant to the Over-allotment Option;
- (b) the conversion of the Company into 境外募集公司 (overseas public subscription company) after the Offering;
- (c) the conversion of certain State-owned Domestic Shares into H Shares pursuant to the relevant laws and regulations of the PRC;
- (d) the increase of the Company's registered capital in the amount equal to the aggregate number of H Shares to be issued under the Offering;
- (e) an application should be made for the listing of the H Shares on the Stock Exchange; and
- (f) the adoption of the Articles of Association and the authorisation of the Board to amend the Articles of Association in accordance with any requirement from the relevant governing authorities in the PRC and the Stock Exchange.

2. CORPORATE REORGANISATION AND OTHER STEPS

The reorganisation of the Company and the authorisation of the Offering in the PRC involved the following procedures and approvals:

- (a) on 28 November, 2002, the Promoters entered into the promoters' agreement (山東濰柴動力股份有限公司發起人協議書), pursuant to which the Promoters agreed, among other things, to establish the Company, and Weichai Factory, being the lead Promoter, to inject its then operating assets and liabilities in relation to the manufacture and sale of WD615 and WD618 Engines and cash, whilst the other Promoters to inject cash, as their capital contributions to the Company;

- (b) on 28 November, 2002, the preparatory committee (for the establishment) of the Company and Weichai Factory signed an asset reorganisation agreement (資產重組協議) regarding the injection by Weichai Factory of its then operating assets and liabilities in relation to the manufacture and sale of WD615 and WD618 Engines to the Company;
- (c) on 9 December, 2002, 山東省人民政府 (Shandong Provincial Government) issued an approval document entitled 《山東省股份有限公司批准證書》(魯政股字【2002】64號), and 山東省經濟體制改革辦公室 (Shandong Economic Reform Office) issued an approval document entitled 《關於同意設立山東濰柴動力股份有限公司的批復》(魯體改企字【2002】100號), approving the establishment of the Company;
- (d) on 18 December, 2002, the Promoters convened an inaugural meeting of the Company at which, amongst others:
 - (1) the initial articles of association of the Company were approved; and
 - (2) the initial directors and supervisors of the Company were appointed;
- (e) on 23 December, 2002, a corporate entity business licence was issued by 山東省工商行政管理局 (Shandong Province Administration for Industry and Commerce) to the Company, whereupon the Company was established as a joint stock limited company;
- (f) on 12 March, 2003, 國家省工商行政管理局 (State Administration for Industry and Commerce) issued an approval document entitled 《企業名稱變更核准通知書》((國)名稱變核內字【2003】第74號), approving the Company's name to be changed to 濰柴動力股份有限公司 (Weichai Power Co., Ltd.);
- (g) on 29 May, 2003, 山東省人民政府 (Shandong Provincial Government) issued an approval document entitled 《關於同意濰柴動力股份有限公司申報在香港發行H股並上市的批覆》(魯政字【2003】207號) in relation to the Company's application for listing and issuance of H Shares in Hong Kong;
- (h) on 30 June, 2003 and 20 October, 2003 meetings of the shareholders of the Company were convened, at which the shareholders of the Company approved, among other things, the Offering;
- (i) on 26 August, 2003, the CSRC issued (《關於同意受理濰柴動力股份有限公司發行境外上市外資股申請的函》(國合函【2003】123號) (a letter agreeing to process the Company's application for issuance of overseas listed foreign shares;
- (j) on 9 November, 2003 and 10 February, 2004, the SASAC issued 《關於濰柴動力股份有限公司部份國有股劃轉有關問題的批復》(approval documents approving the allocation of certain State-owned Domestic Shares to the NSSF Council and the sale thereof under the Offering);

- (k) on 13 November, 2003, the SASAC issued 《關於濰柴動力股份有限公司轉為境外募集公司的函》(a document in relation to the conversion of the Company into an overseas public subscription company and the disposal of certain State-owned Domestic Shares under the Offering);
- (l) on 26 November, 2003, the CSRC issued 《關於同意濰柴動力股份有限公司發行境外上市外資股的批復》(an approval document approving the Offering and the listing of the H Shares on the Stock Exchange); and
- (m) on 12 February, 2004, the NSSF Council issued 《關於委託出售全國社會保障基金所持濰柴動力股份有限公司國有股的函》(a document authorising the Company to dispose of State-owned Domestic Shares on behalf of the NSSF Council under the Offering).

3. CHANGES IN THE SHARE CAPITAL OF SUBSIDIARIES

The Company has no subsidiaries within the two years preceding the date of this Prospectus. Therefore, no information on alteration in the share capital of any of the subsidiaries of the Company at the same period is available.

4. FURTHER INFORMATION REGARDING THE BUSINESS

A. Material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company within the two years preceding the date of this Prospectus and are or may be material:

1. general services agreement (綜合服務協議) dated 17 November, 2003 (in Chinese) entered into between the Company and Weichai Factory relating to the provision of certain general services by Weichai Factory to the Company in Weifang, Shandong Province;
2. utility services agreement (提供動能服務協議) dated 17 November, 2003 (in Chinese) entered into between the Company and Weichai Factory relating to the supply of certain utility services by Weichai Factory to the Company in Weifang, Shandong Province;
3. asset lease agreement (資產及土地租賃協議) dated 21 October, 2003 (in Chinese) entered into between the Company and Weichai Factory relating to the lease by the Company from Weichai Factory of, among others, certain buildings (located in Weifang, Shandong) and all those machinery and equipment situated therein for the manufacture of certain unfinished diesel engine parts;
4. two registered trademarks license agreements (註冊商標使用許可合同) both dated 1 April, 2003 (in Chinese) and one trademarks use and transfer agreement (商標使用及轉讓協議) dated 17 November, 2003 (in Chinese) entered into between the Company and Weichai Factory regarding the transfer of “Weichai”, “濰柴” and “同心” trademarks;



5. diesel engine manufacturing technologies transfer agreement (柴油機製造系列技術轉讓合同) dated 17 November, 2003 (in Chinese) entered into between the Company and Weichai Factory relating to the acquisition of certain technologies in relation to the WD615 Engines and WD618 Engines;
6. master sales and warranty period repair services agreement (代理銷售及維修服務協議) dated 17 November, 2003 (in Chinese) entered into between the Company and Weichai Factory relating to the provision of sales and repair services by the Company to Weichai Factory;
7. general services agreement (綜合服務協議) dated 17 November, 2003 (in Chinese) entered into between the Company and Chongqing Weichai relating to the supply of certain general services by Chongqing Weichai to the Company in Chongqing;
8. utility services agreement (提供動能服務協議) dated 17 November, 2003 (in Chinese) entered into between the Company and Chongqing Weichai relating to the supply of certain utility services by Chongqing Weichai to the Company in Chongqing;
9. lease agreement (房屋土地租賃協議) dated 1 July, 2003 (in Chinese) entered into between the Company and Chongqing Weichai relating to the lease of certain properties by Chongqing Weichai to the Company in Chongqing;
10. processing services agreement (委托加工協議) dated 17 November, 2003 (in Chinese) entered into between the Company and Chongqing Weichai in relation to the provision of processing services of certain unfinished diesel engine parts by Chongqing Weichai to the Company;
11. acquisition of assets agreement (資產轉讓協議), dated 30 June, 2003 (in Chinese), entered into between the Company and Chongqing Weichai regarding the purchase of certain equipment located in Chongqing Weichai's premises in Chongqing by the Company;
12. non-competition agreement (避免同業競爭協議) dated 20 August, 2003 (in Chinese) entered into between Weichai Factory and the Company regarding the non-competition undertaking given by Weichai Factory to the Company, further details of which are set out in the section headed "Business – Relationship with Weichai Factory" in this Prospectus;
13. non-competition undertaking letter (關於不從事同業競爭業務的承諾函) dated 18 November, 2003 (in Chinese) given by CHDTGL in favour of the Company in relation to, inter alia, the grant of rights of first refusal in respect of future business opportunities and acquisition of Hangqi, further details of which are set out in the section headed "Business – Relationship with the China Heavy Duty Truck Group" in this Prospectus;

14. consent letter dated 30 July, 2003 entered into among the Company, MAN Steyr AG and Weichai Factory regarding the transfer to the Company of all the rights and obligations of Weichai Factory under the agreement for the development of WD618 Engines entered into between Weichai Factory and MAN Steyr AG on 5 July, 1995;
15. asset reorganisation agreement (資產重組協議) dated 28 November, 2002 (in Chinese) entered into between Weichai Factory and the preparatory committee (for the establishment of) the Company regarding asset reorganisation;
16. the Public Offer Underwriting Agreement referred to in the section headed “Underwriting – Underwriting arrangements and expenses” in this Prospectus;
17. the deed of indemnity (補償契據) dated 13 February, 2004 (in Chinese) entered into between Weichai Factory and the Company pursuant to which Weichai Factory provided an indemnity for the benefit of the Company in respect of, *inter alia*, certain taxation matters and leasehold properties of the Company;
18. supplementary trademarks use and transfer agreement (商標使用及轉讓補充協議) dated 18 December, 2003 (in Chinese) entered into between the Company and Weichai Factory, being a supplementary agreement to the trademarks use and transfer agreement dated 17 November, 2003 referred to in paragraph 4 above under the section of “Material contracts”;
19. supplementary diesel engine manufacturing technologies transfer agreement (柴油機製造系列技術轉讓補充合同) dated 18 December, 2003 (in Chinese) entered into between the Company and Weichai Factory, being a supplementary agreement to the diesel engine manufacturing technologies transfer agreement dated 17 November, 2003 referred to in paragraph 5 above under the section of “Material contracts”;
20. supplementary general services agreement (綜合服務補充協議) dated 12 January, 2004 (in Chinese) entered into between the Company and Weichai Factory, being a supplementary agreement to the general services agreement dated 17 November, 2003 referred to in paragraph 1 above under the section of “Material contracts”;
21. second supplementary general services agreement (綜合服務第二補充協議) dated 2 February, 2004 (in Chinese) entered into between the Company and Weichai Factory, being a supplementary agreement to the general services agreement dated 17 November, 2003 and the supplementary general services agreement dated 12 January, 2004 referred to in paragraphs 1 and 20 above under the section of “Material contracts”;


22. supplementary general services agreement (綜合服務補充協議) dated 12 January, 2004 (in Chinese) entered into between the Company and Chongqing Weichai, being a supplementary agreement to the general services agreement dated 17 November, 2003 referred to in paragraph 7 above under the section of “Material contracts”;
23. second supplementary general services agreement (綜合服務第二補充協議書) dated 2 February, 2004 (in Chinese) entered into between the Company and Chongqing Weichai, being a supplementary agreement to the general services agreement dated 17 November, 2003 and the supplementary general services agreement dated 12 January, 2004 referred to in paragraphs 7 and 22 above under the section of “Material contracts”;
24. supplementary processing services agreement (委托加工補充協議) dated 12 January, 2004 (in Chinese) entered into between the Company and Chongqing Weichai, being a supplementary agreement to the processing services agreement dated 17 November, 2003 referred to in paragraph 10 above under the section of “Material contracts”;
25. second supplementary processing services agreement (委托加工第二補充協議) dated 2 February, 2004 (in Chinese) entered into between the Company and Chongqing Weichai, being a supplementary agreement to the processing services agreement dated 17 November, 2003 and the supplementary processing services agreement dated 12 January, 2004 referred to in paragraphs 10 and 24 above under the section of “Material contracts”; and
26. second supplementary trademarks use and transfer agreement (商標使用及轉讓第二補充協議) dated 13 February, 2004 (in Chinese) entered into between the Company and Weichai Factory, being a supplementary agreement to the trademarks use and transfer agreement dated 17 November, 2003 and the supplementary trademarks use and transfer agreement dated 18 December, 2003 referred to in paragraphs 4 and 18 above under the section of “Material contracts”.

B. INTELLECTUAL PROPERTY RIGHTS OF THE COMPANY



1. As at the Latest Practicable Date, the Company had the following registered trademarks in the PRC:

Trade Mark	Place of Registration	Class	Expiry Date	Registration Number	Products Covered
 WEICHAI	China	7	27.01.2012	1705556	柴油機 (diesel engine), 柴油發電機組 (diesel power generator), 齒輪箱 (gear box), 船用發動機 (engine for vessel use), 內燃機 配件 (internal combustion engine parts)
 同心	China	7	29.11.2012	620216	柴油機 (diesel engine), 柴油發電機組 (diesel power generator)

2. As at the Latest Practicable Date, the Company had submitted application for the registration of the following trademark in the PRC:

Trade Mark	Place of Application	Class	Application Date	Application Number	Products Covered
 濰柴	China	7	25.11.2003	3175015	農業機械 (agricultural implement), 柴油機 (diesel engine), 柴油發電機組 (diesel power generator), 內燃機配件 (internal combustion engine parts), 齒輪箱 (gear box), 曲軸 (crankshaft)

3. As at the Latest Practicable Date, the Company had submitted application for the registration of the following trademarks in Hong Kong:

Trade Mark	Place of Application	Name of Applicant	Class	Application Date	Application Number
	Hong Kong	The Company	7 & 12	7th November, 2003	300107991
WEICHAI	Hong Kong	The Company	7 & 12	7th November, 2003	300107982
潍柴	Hong Kong	The Company	7 & 12	7th November, 2003	300107955
同心	Hong Kong	The Company	7 & 12	7th November, 2003	300108017
	Hong Kong	The Company	7 & 12	7th November, 2003	300108026
WEICHAI POWER	Hong Kong	The Company	7 & 12	7th November, 2003	300107973

4. As at the Latest Practicable Date, the Company had the following registered patents in the PRC:

Patent	Place of Registration	Registrant	Expiry Date	Registration Number	Products Covered
外觀設計 (contour design)	China	The Company	06.12.2011	ZL01351969.7	柴油機氣缸體 (cylinder chamber for diesel engine)
實用新型 (utility model)	China	The Company	06.12.2011	ZL01268894.0	柴油機氣缸體 (cylinder chamber for diesel engine)
實用新型 (utility model)	China	The Company	06.12.2011	ZL01268893.2	單油門柴油機調速器外置式操縱機構 (external synchronizer control for single throttle diesel engine)

5. FURTHER INFORMATION ABOUT DIRECTORS, SUPERVISORS, MANAGEMENT AND STAFF

Directors and Supervisors

1. *Particulars of service agreement*

Each of the executive Directors has entered into a service contract with the Company for a term commencing on 24 November, 2003 and ending on 17 December, 2005. Terms of the service contracts of such executive Directors are in all material respects the same. Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term ending on the next annual general meeting of the Company. Terms of the appointment letters of such independent non-executive Directors are in all material respects the same. Pursuant to the Articles of Association, the remuneration of the Directors and the Supervisors will be determined by the shareholders of the Company in the general meeting.

2. *Directors' and Supervisors' remuneration*

As stated in the accountants' report in appendix 1 to this Prospectus, the aggregate amount of salaries, other allowances and retirement benefit scheme contributions paid by the Company to the Directors and the Supervisors for each of the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003 were RMB106,000, RMB127,000 and RMB1,799,000 and RMB46,000, RMB79,000 and RMB165,000, respectively.

Pursuant to the respective service contracts of the executive Directors, the aggregate annual remuneration (including salaries, allowance and bonus (if any)) paid to Tan Xuguang, Xu Xinyu, Sun Shaojun and Zhang Quan for the year ended 31 December, 2003 was approximately RMB1,130,000. No benefits in kind will be offered to any Directors by the Company.

The eight non-executive Directors had been paid a remuneration of RMB400,000 in aggregate for the year ended 31 December, 2003.

Pursuant to the respective letters of appointment of the independent non-executive Directors, the annual remuneration payable to Zhang Xiaoyu and Koo Fook Sun, Louis shall amount to approximately RMB246,000.

The Company will pay an aggregate annual remuneration of RMB160,000 to the three Supervisors for the year ending 31 December, 2004.

Under the arrangements currently in force, the Company estimates that the aggregate remuneration (including salaries, allowance but excluding bonus (if any)) of the Directors and Supervisors payable by the Company for the year ending 31 December, 2004 is approximately RMB2,174,000.

There was no waiver of any emoluments by the Directors or Supervisors during the three years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003.

6. DISCLOSURE OF INTERESTS

(a) So far as the Directors or the chief executive of the Company are aware, immediately following the completion of the Offering (assuming the Over-allotment Option is not exercised), the following persons (other than a Director or the chief executive of the Company) will have an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name	Number of Promoter Shares	Number of H Shares	Approximate percentage of share capital comprising only Domestic Shares and Foreign Shares (being Shares of the same class) immediately after the Offering	Approximate percentage of share capital comprising Domestic Shares, Foreign Shares and H Shares immediately after the Offering	Type of interest held
Weichai Factory (Note 6)	78,796,000	Nil	38.44%	25.01%	Long
CHDTGL (Note 1)	78,796,000	Nil	38.44%	25.01%	Long
Peterson (Note 2)	23,500,000	Nil	11.46%	7.46%	Long
Tingho Nominees Limited (Note 2)	23,500,000	Nil	11.46%	7.46%	Long
Advantage Investment Corporation Limited (Note 2)	23,500,000	Nil	11.46%	7.46%	Long
Fujian Longgong	21,500,000	Nil	10.49%	6.83%	Long
Ni Yinying (Note 3)	21,500,000	Nil	10.49%	6.83%	Long
Weifang Investment (Notes 4 and 6)	19,597,000	Nil	9.56%	6.22%	Long
Shenzhen Investment	21,500,000	Nil	10.49%	6.83%	Long
深圳市投资管理公司 (Shenzhen Investment Management Company) (Note 5)	21,500,000	Nil	10.49%	6.83%	Long
IVM	10,750,000	Nil	5.24%	3.41%	Long
ADTECH Advanced Technologies AG	10,750,000	Nil	5.24%	3.41%	Long

Notes:

1. CHDTGL is the holding company of Weichai Factory and holds the entire capital of Weichai Factory. CHDTGL is a State-owned enterprise.
2. Yeung Sai Hong, a Director, is beneficially interested in the entire issued share capital of Tingho Nominees Limited, which in turn owns 100% of Advantage Investment Corporation Limited, which is interested in 90% of the entire issued share capital of Peterson.

3. The capital of Fujian Longgong is held as to approximately 69.16% by Li San Yim (a non-executive Director) and as to approximately 30.84% by Ni Yinying. Ni Yinying is Li San Yim’s wife, therefore Ni Yinying is deemed to be interested in Li San Yim’s entire interest in Fujian Longgong.
4. Weifang Investment is a State-owned enterprise.
5. 深圳市投资管理公司 (Shenzhen Investment Management Company) is interested in approximately 33.73% of the capital of Shenzhen Investment.
6. According to the “Provisional Administrative Measures for the Reduction of State Shares and the Raising of the Social Security Fund” promulgated by the State Council on 12 June, 2001, all joint stock limited companies with State-owned shares in issue are required to sell State-owned shares to the extent of 10% of the funds raised by such joint stock limited companies in their initial public offerings or subsequent share offerings to the public for 全國社會保障基金 (the State national social security fund). Therefore, Weichai Factory, Weifang Investment and Guangxi Liugong, together holding 112,950,000 State-owned Domestic Shares prior to the Offering, will sell 7,654,000, 1,903,000 and 443,000 State-owned Domestic Shares, respectively in the Offering (assuming that the Over-allotment Option is not exercised). The NSSF Council has directed the Company to sell such State-owned Domestic Shares and submit the net proceeds from the sale of such State-owned Domestic Shares to the NSSF Council. Prior to the disposal of the State-owned Domestic Shares by the Company at the direction of the NSSF Council, the above-mentioned State-owned Domestic Shares are still registered in the names of the Selling Shareholders.

Since the Company does not have any subsidiary, there is no person who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any subsidiaries of the Company.

- (b) So far as the Directors are aware, immediately following completion of the Offering (assuming the Over-allotment Option is not exercised), the interests and short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once the H Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein once the H Shares are listed, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange once the H Shares are listed, will be as follows:

Name of Director/ Supervisor	Personal interest	Family interest	Corporate interest	Other interest	Total	Type of interest
Tan Xuguang	4,300,000 (Note 1)	Nil	Nil	Nil	4,300,000	Long
Xu Xinyu	1,000,000 (Note 1)	Nil	Nil	Nil	1,000,000	Long
Sun Shaojun	1,000,000 (Note 1)	Nil	Nil	Nil	1,000,000	Long
Zhang Quan	1,000,000 (Note 1)	Nil	Nil	Nil	1,000,000	Long

Name of Director/ Supervisor	Personal interest	Family interest	Corporate interest	Other interest	Total	Type of interest
Yeung Sai Hong (Note 2)	Nil	Nil	23,500,000 (Note 1)	Nil	23,500,000	Long
Li San Yim (Note 3)	Nil	Nil	21,500,000 (Note 1)	Nil	21,500,000	Long
Julius G. Kiss (Note 4)	Nil	Nil	10,750,000 (Note 1)	Nil	10,750,000	Long
Wang Yong (Note 5)	350,000 (Note 1)	Nil	Nil	Nil	350,000	Long

- Notes:
- These Shares are Promoter Shares.
 - Yeung Sai Hong, a Director, is directly and indirectly interested in the entire issued share capital of Peterson, which in turn holds 23,500,000 Promotor Shares.
 - Li San Yim, a Director, and his wife, Ni Yinying, are interested in 69.16% and 30.84%, respectively in the capital of Fujian Longgong, which in turn holds 21,500,000 Promotor Shares, therefore Li San Yim is deemed to be interested in Ni Yinying’s entire interest in Fujian Longgong.
 - Julius G. Kiss, a Director, is indirectly interested in the entire capital of IVM, which in turn holds 10,750,000 Promotor Shares.
 - Wang Yong is a Supervisor.

Disclaimers

Save as disclosed in this Prospectus:

- so far as is known to any Director or Supervisor, there is no person who will immediately following the completion of the Offering, be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company;
- save as referred to above, there is no existing or proposed service contract (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between the Company and any of the Directors or Supervisors;

- (c) none of the Directors, Supervisors nor any of the persons referred to in paragraph 7G of this appendix is directly or indirectly interested in the promotion of the Company or in any assets which have been within the two years immediately preceding the date of this Prospectus acquired or disposed of by or leased to the Company, or are proposed to be so acquired, disposed of or leased;
- (d) no Director or Supervisor nor any of the persons referred to in paragraph 7G of this appendix is materially interested in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to the business of the Company;
- (e) save and except for the interests and rights of the Underwriters stipulated in the Public Offer Underwriting Agreement and Placing Underwriting Agreement, none of the persons referred to in paragraph 7G of this appendix are interested legally or beneficially in any shareholding in the Company nor has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company;
- (f) none of the Directors, Supervisors, their associates (as defined in the Listing Rules) or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company) has any interest in any of the five largest suppliers or five largest customers of the Company;
- (g) none of the Directors or Supervisors is a director or employee of a company which has an interest in the share capital of the Company which, once the H Shares are listed, would have to be disclosed by the Company pursuant to Divisions 7 and 8 of Part XV of the SFO;
- (h) no amount or benefit has been paid or given within the two years immediately preceding the date of this Prospectus to any Promoter nor is any such amount or benefit intended to be paid or given; and
- (i) none of the Directors, chief executive of the Company or Supervisors has any interest in the equity or debt securities of the Company or any associated corporations (within the meaning of Part XV of the SFO) which will have to be disclosed pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in the shares and debentures), or will be required, pursuant to section 352 of the SFO (including interests and short positions which they have taken or are deemed to have taken under the SFO) to be notified to the Company and the Stock Exchange, or to be entered in the register referred to therein or any interest in warrants to subscribe for shares of the Company or any associated corporations (as defined in Part XV of the SFO) which, once the H Shares are listed, will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

7. OTHER INFORMATION**A. Estate duty and other indemnities**

The Directors have been advised by Zhong Lun Law Firm that no material liability for estate duty would be likely to fall upon the Company under the PRC laws.

Pursuant to a deed of indemnity dated 13 February, 2004 (the “Deed”) entered into between the Company and Weichai Factory, Weichai Factory has agreed to provide indemnities in respect of, among other matters, any tax liability which might be payable by the Company and any loss or damage which the Company may suffer or incur as a result of the lack of title to any of leasehold properties of the Company on the part of the lessor under any of the relevant lease agreements, or the failure to file or register any of the relevant lease agreements, or interference with the Company’s right to use these properties under the relevant lease agreements.

B. Litigation

The Company is not engaged in any litigation or claims of material importance and no litigation or claims of material importance is known to the Directors to be pending or threatened by or against the Company.

C. Sponsor

The Sponsor has made an application on behalf of the Company to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the H Shares. All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

D. No material adverse change

The Directors are not aware of any material adverse change in the financial or trading position of the Company since 31 December, 2003 (being the date to which the latest audited financial statements of the Company were made up and set out in the accountants’ report in appendix I to this Prospectus).

E. Binding effect

This Prospectus shall have the effect, if any application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

F. Selling Shareholders (*Note*)

The particulars of the Selling Shareholders are as follows:

Name	Address	Number of the	Number of the
		State-owned Domestic Shares to be disposed under the Offering (assuming that the Over-allotment Option is not exercised)	State-owned Domestic Shares to be disposed under the Offering (assuming that the Over-allotment Option is exercised in full)
Weichai Factory	26 Minsheng Dong Street, Weifang Shandong Province the PRC	7,654,000	8,802,100
Weifang Investment	275 Dongfeng East Street, Kuiwen District Weifang Shandong Province the PRC	1,903,000	2,188,450
Guangxi Liugong	1 Liutai Road Liuzhou Guangxi the PRC	443,000	509,450

Note: According to the “Provisional Administrative Measures for the Reduction of State Shares and the Raising of the Social Security Fund” promulgated by the State Council on 12 June, 2001, all joint stock limited companies with State-owned shares in issue are required to sell State-owned shares to the extent of 10% of the funds raised by such joint stock limited companies in their initial public offerings or subsequent share offerings to the public for 全國社會保障基金 (the National Social Security Fund of the PRC). Therefore, Weichai Factory, Weifang Investment and Guangxi Liugong, together holding 112,950,000 State-owned Domestic Shares prior to the Offering, will sell 7,654,000, 1,903,000 and 443,000 State-owned Domestic Shares, respectively in the Offering (assuming that the Over-allotment Option is not exercised) and will sell 8,802,100, 2,188,450, 509,450 State-owned Domestic Shares (assuming that the Over-allotment Option is exercised in full). The NSSF Council has directed the Company to sell such State-owned Domestic Shares and submit the net proceeds from the sale of such State-owned Domestic Shares to the NSSF Council.

Prior to the disposal of the State-owned Domestic Shares by the Company at the direction of the NSSF Council, the above-mentioned State-owned Domestic Shares are still registered in the names of the Selling Shareholders.

G. Qualification of experts

Name	Qualification
CITIC Capital Markets Limited	Licensed corporation under the SFO
Deloitte Touche Tohmatsu	Certified public accountants
Vigers Appraisal & Consulting Limited	Chartered surveyors
Zhong Lun Law Firm	PRC lawyers approved by the relevant authorities in the PRC to advise on securities matters

H. Consents of experts

CITIC Capital Markets Limited, Deloitte Touche Tohmatsu, Vigers Appraisal & Consulting Limited and Zhong Lun Law Firm have given and have not withdrawn their respective written consents to the issue of this Prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included herein in the form and context in which they are respectively included.

I. Promoters

The promoters of the Company are Weichai Factory, Peterson, Weifang Investment, Fujian Longgong, Shenzhen Investment, IVM, Shandong Trust, Guangxi Liugong and 24 natural persons including Tan Xuguang, Xu Xinyu, Zhang Quan, Sun Shaojun, Sun Xueke, Chen Songdong, Ding Yingdong, Dai Lixin, Han Lisheng, Feng Gang, Zhong Genghui, Wang Yong, Ma Yuxian, Liu Yuanqiang, Wang Changliang, Wang Xiaoying, Li Honggang, Li Jiajia, Wu Hongwei, Yu Rushui, Wang Tongtai, Wang Fengyi, Liu Huisheng and Tong Dehui. As from the establishment of the Company to the date of this Prospectus, other than any payments made under the section headed “Business – Connected transactions” in this Prospectus (which payments were incurred in the ordinary course of the Company’s business), the Company has paid the Promoters (including both corporate and individual Promoters) dividends of approximately RMB43,014,000 in aggregate. With respect to the individual promoters being employees and/or officers of the Company, as from the establishment of the Company to the date of this Prospectus, the Company has paid them salaries, bonus, allowances and other benefits of approximately RMB2,185,000 in aggregate. In addition, the Promoters (including both individual and corporate Promoters) may continue to receive dividends (if any) declared by the Company, and with respect to those Promoters who will continue to be engaged in the aforesaid connected transactions with the Company, they may receive or provide consideration from or to the Company in connection therewith, and with respect to those Promoters who are employees and/or officers of the Company, salaries, bonus, allowances or other benefits during the course of their respective employment or services with the Company, in the future.

J. Preliminary expenses

The preliminary expenses of the Company relating to its establishment as a joint stock limited company in the PRC were approximately RMB3,120,000 in aggregate including the amount paid by the Company to, among others, property valuers, auditors, legal advisers, financial advisers for the services provided by them to the Company and for other administrative fees and expenses incurred by the Company in relation thereto.

K. Miscellaneous

- (a) Save as disclosed in this Prospectus:
 - (i) within the two years immediately preceding the date of this Prospectus, no share or loan capital of the Company has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) the Company has not issued or agreed to issue any founder shares, management shares or deferred shares;
 - (iv) within the two years immediately preceding the date of this Prospectus, no commission has been paid or payable (except any commission to sub-underwriters) for subscriptions, agreeing to subscribe, procuring subscriptions or agreeing to procure subscriptions of any shares in the capital of the Company; and
 - (v) none of the equity or debt securities of the Company is listed or dealt in any other stock exchange nor is any listing or permission to deal being or proposed to be sought.
- (b) The Company intends to apply, after the Listing, for the status of a Sino-foreign investment joint stock limited company in accordance with the PRC laws and regulations, and will thereafter be subject to the relevant provisions of the PRC Sino-Foreign Equity Joint Venture Law.
- (c) The Company has no issued or outstanding convertible debt securities.
- (d) None of the experts referred to in paragraph H above is an officer or servant or a partner of or in employment of an officer or servant of the Company.

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this Prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the white and yellow application forms, the written consents referred to in paragraph H of the section headed “Other information” of appendix V to this Prospectus, the list of the particulars of the Selling Shareholders, the statement of adjustments made by Deloitte Touche Tohmatsu in auditing the figures set out in their accountants’ report set out in appendix I to this Prospectus and copies of the material contracts referred to in paragraph A of the section headed “Further information regarding the business – Material contracts” of appendix V to this Prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Richards Butler at 20th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong during normal business hours up to and including 11 March, 2004:

- (a) the Articles of Association (together with certified English translation);
- (b) the accountants’ report on the Company prepared by Deloitte Touche Tohmatsu, the texts of which are set out in appendix I to this Prospectus and the related statement of adjustments;
- (c) the letters, summary of values, valuation certificates and the valuation reports relating to the property of the Company prepared by Vigers Appraisal & Consulting Limited, the texts of which are set out in appendix III to this Prospectus;
- (d) the service contracts of the Directors referred to in the section headed “Further information about Directors, supervisors, management and staff” in appendix V to this Prospectus (together with certified English translation);
- (e) the material contracts referred to in paragraph A of the section headed “Further information regarding the business” in appendix V to this Prospectus (together with certified English translations, where appropriate);
- (f) the written consents of experts referred to in paragraph H of the section headed “Other information” in appendix V to this Prospectus;
- (g) a list of the particulars of the Selling Shareholders (together with certified English translation);

- (h) the PRC legal opinions dated 17 February, 2004 and 26 February, 2004 issued by Zhong Lun Law Firm, confirming that, among others, the summary of relevant PRC laws and principal regulatory provisions set out in appendix IV to this Prospectus is a correct summary of the relevant PRC laws and regulatory provisions and the legal status of Promoter Foreign Shares (together with certified English translations);
- (i) the PRC Company Law together with an unofficial English translation;
- (j) the Special Regulations together with an unofficial English translation; and
- (k) the Mandatory Provisions together with an unofficial English translation.